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**The Labour Force in A Dual Economy**

**Problems of its Growth and Structural  
Change for Economic Development,  
with special reference to Malaya**

**A thesis presented to the Faculty of  
Arts, University of Glasgow, for the degree  
of Doctor of Philosophy**

**by**

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**February, 1968.**



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### Acknowledgments

It is with a deep sense of gratitude that I wish to record my thanks to the Commonwealth Scholarship Commission in the United Kingdom who made it possible for me to pursue my studies at the University of Glasgow during the past three years. I am also grateful to the officials of the Commission who have at all times shown a kindly interest in my academic progress and have patiently attended to my personal problems.

I wish also to thank all officials of the British Council in Glasgow, London and in Kuala Lumpur for their most valuable help and advice. I am particularly grateful to the staff of the British Council in Glasgow whose educational tours arranged specially for foreign students have made me acquainted with aspects of Scottish history and economic development of which I was ignorant before.

Any progress that I may have made academically during my stay in Glasgow is owed to Prof. D.J. Robertson who kindly admitted me as a Research Student in the Department of Social and Economic Research.

I wish to record my grateful appreciation to him for all the assistance that I have received as a student. During the first year of my research, when my inexperience was a serious handicap especially in the choice of a suitable subject for my thesis, I benefited a great deal from the discussions I had with Mr. G.H. Reid. I thank him for his advice and criticism. However, without the patient and kindly guidance of my Supervisor, Dr. J.O. Hunter, I am sure that I could not have succeeded in producing a coherent and presentable academic dissertation. I feel I cannot thank him adequately for the numerous occasions on which he has discussed my work with me and encouraged me to take up fruitful lines of investigation. However, I am alone responsible for the analysis of the factual material presented in my study and for the conclusions drawn therefrom. Obviously, therefore, Dr. Hunter cannot be responsible for any errors of omission or commission that may still mar my work, as these are due solely to my own lack of perception.

The benefit I have derived from attending the many interesting seminars organised by the Departments of Political Economy, International Economics, as well as Social and Economic Research has undoubtedly helped me in my work as well as in broadening my interest in economics.

I am grateful to the staff of the University of Glasgow Library and the new Adam Smith Library for much valuable advice and assistance. I must also thank the staff of the Library of Political and Economic Science, of the London School of Economics, and the British Museum Library for locating for me some old publications which are not readily available elsewhere. I have also made use of the facilities available at the Mitchell Library and the Commercial Library, both run by the Glasgow Corporation.

I am indebted to Prof. U.A. Aziz and the members of the Department of Economics, University of Malaya for their encouragement and assistance at all times.

I thank Miss Betty Dunsmuir for bravely undertaking the arduous task of typing my thesis from manuscript form and for doing it so well.

I am also grateful to Mrs. D. Ryder of the Department of Social and Economic Research for her kindly interest in my progress and for her assistance on the practical problems involved in the preparation of the thesis.

Finally, I wish to thank all Glaswegians, particularly those not directly concerned with the University, whose help and understanding in our daily contacts was most appreciated and which, I have no doubt, has benefited my academic work in no small way.

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### Introduction

The rise of the mystique of capital as the universal panacea for the problems of under-developed countries owes a great deal to the post-World War II experience of the European nations.<sup>1</sup> In the war-devastated economies of the West economic stagnation or even decline seemed imminent unless world trade revived speedily. But the revival of international trade was dependent on the ability of individual countries to resume normal levels of production in their industries. War damage and obsolescence in plant and machinery were the principal reasons for their inability to return to pre-war levels of productivity and to compete effectively in international markets. Under these circumstances the Marshall Plan proved a most potent remedy as it brought about at least a partial alleviation of the acute capital shortage in the industrialized European countries.

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1 See H.W. Singer, "Recent Trends in Economic Thought on Under-developed Countries," Social Research, Vol. 28, No. 4, 1961 and G. Myrdal, An International Economy, London, 1956, especially chaps. 1-4

The growing strength of representation from under-developed countries in international bodies, especially the various agencies of the United Nations, has resulted in the exposure of these countries to the rapid economic progress of the industrial countries including Japan since the end of the War. Hence the continuing clamour by the third world (a less misleading euphemism than 'developing countries') for an international agency in the image of the Marshall Plan for the disbursement of capital resources throughout the world.

It is no exaggeration to say that the current preoccupation with the so-called capital requirements of the under-developed countries stems largely from the recent experience of the industrialised West.<sup>2</sup>

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2 See Simon Kuznets, "Present Under developed Countries and Past Growth Patterns," in *Economic Growth: Rationale, Problems, Cases* (EASTON Nelson, ed.), Austin, 1960. And for an instance of such pre-occupation, see the United Nations' *Measures for the Economic Development of Under-developed Countries*, New York, 1951.

This tendency has been further aggravated by Governments in under-developed countries which have invariably concentrated their high-level manpower to the task of devising sophisticated development models, based on the 'great ratios' (but especially the capital - output and capital - labour ratios), and which reveal the inevitable capital resources 'gap' for the sympathetic consideration of donor countries.<sup>3</sup> My criticism of this growing 'gamesmanship' in the exploitation of capital resources on an international level should not be taken to mean that under-developed countries do not experience capital shortage. But the problem of capital shortage has to be viewed in perspective, that is, as merely one of several factors of production, including land labour and organization. It is not uncommon to find that Governments of under-developed countries which have not attempted the minimal efforts towards rationalising the utilization of land and labour resources nor in modernising the organization of production at all levels have nevertheless been able to present long-term projections/

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3 Albert O. Hirschman, "Investment Policies and Dualism in Under Developed Countries," American

projections(based on quite tenuous assumptions) on their future capital requirements. Under these circumstances it is difficult to avoid the suspicion that Governments tend to opt for the easy 'solution' of capital requirements (which at least has the chance of international aid) and avoid taking the drastic but necessary steps for the long-term re-allocation of land and labour resources and the general improvement of organisational methods, all of which may require much more enlightened discussion and careful planning than mere projections of capital requirements.

In the growing literature on the economics of the under-developed countries one fails to see an adequate appreciation of the fact that different under-developed countries have had different patterns of social, economic and political evolution in their recent history.<sup>4</sup>

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contd. Economic Review, Sept., 1957.

- 4 H. Myint, "An Interpretation of Economic Backwardness," Oxford Economic Papers, June 1954. See also William G. Demas, The Economics of Development in Small Countries with special reference to the Caribbean, Montreal, 1965.



While the United Nations and other international agencies might be able to justify their use of national income aggregates and other global statistics on the grounds that such crude comparisons, more than anything else, draw the world's attention to the widening gap between the rich and poor nations, practising economists have found their use to be blurring the more important distinctions between the under developed countries themselves. This is especially the case where the human factor in economic development, namely the quality and motivation of the labour force is concerned.

The present study of the labour force in Malaya is therefore intended as an analytical exercise that will reveal the significant inter-relationships between the development of human resources and the pattern of economic growth in the country.<sup>5</sup>

---

5 The urgent need to rationalize the use of labour resources available in the under-developed countries has in recent years received the attention it has always deserved. See the special supplement on "Economic Development and Human Resources" in the United Nations Economic Commission for Asia and the Far East, Economic Survey of Asia and the

In order to establish clearly the major characteristics of human resource development in a dual economy such as that of Malaya it has been necessary to delve deeper into historical material than would normally be expected in such a work. Again, a detailed account of changes in conditions of the labour market in Malaya has often taken me beyond a restricted account of conditions of the labour force alone. But an account of the evolution of the labour force especially in the context of the major economic changes taking place in the country will not be complete unless labour market conditions are clearly accounted for.<sup>6</sup> Indeed in approaching my subject I have been informed of the view that all "information about those institutions and procedures through which the labor force is nurtured and trained, deployed between occupations and industries, and organized and directed at the place of work"<sup>7</sup> would be relevant to the study.

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contd. Far East, Bangkok, 1965.

6 D.J. Robertson, "A Market for Labour," in *Ancient or Modern* (Ralph Harris, ed.), Hobart Papers, Vol. 2, London, 1961, p. 266.

7 B.H. Phelps Brown, *The Economics of Labour*, New

The statistical data used throughout the work are derived from official publications of the Government of Malaya, both for the colonial period as well as for the post - Independence period after 1957, and these sources are appropriately cited. Other sources of fact as well as opinion have been cited as foot notes in the appropriate pages throughout the work. Two works more than any other have had a major influence on my approach to the present study and it would be appropriate to mention them here. The fact that I am in a position to mention only these two is an indication of the paucity of such studies based on under-developed countries as well as of the excellence of the two works. The first of these is a book by A.J. Jaffe<sup>8</sup> on the labour resource aspects of the economic development problem in Puerto Rico and in Mexico and the second is a lengthy article by Adhemar Byl<sup>9</sup> on the evolution of the labour market in French-speaking West Africa.

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contd. Haven, 1962, p.5.

8 A.J. Jaffe, People, Jobs and Economic Development, Glencoe, Ill., 1959.

9 Adhemar Byl, "The Evolution of the Labour Market

These are, however, case studies of individual countries and a disclaimer that the present work has not incorporated any of their findings would naturally be unnecessary.

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contd. in French - speaking West Africa,"  
Weltwirtschaftliches Archiv, Band 97,  
Heft 1, 1966.

## Chapter I

### The Emergence of a Dual Economy

The period of human history, of about four hundred and fifty years, during which Western political and economic interests came to play an increasingly dominant role in the rest of the world, particularly in Asia, has been referred to by historians as the Vasco da Gama epoch. The momentum of Western expansion might have varied over this period of history, under different European nations and under different socio-economic circumstances in Europe; but as a whole "it had certain well-marked characteristics which marked it as a separate epoch in history."<sup>1</sup> Its origins coincide with the expansion of Portuguese maritime strength in the fifteenth century; but more specifically, with the arrival of Vasco da Gama in Calicut in 1498. This epoch may be said to have ended in the course of 1947 to 1949, with the Indians gaining independence and the European navies withdrawing from China.<sup>2</sup>

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1 K.M. Panikkar, *Asia and Western Dominance*, London 1953, p. 11.

2 M. Edwardes, *Asia in the European Age*, London, 1959.

Although there were significant variations in the extent of Western influence over Asian territories and at different times, two distinct phases in these East-West encounters can generally be distinguished. From the sixteenth century till about the eighteenth century, mere maritime superiority of the Western powers proved insufficient to exert this influence over the Asian mainland powers, although smaller island and maritime provinces had easily come within their sphere of influence. During the second phase of these East-West encounters, however, which began in the nineteenth century, the European powers proved more successful in extending their political and economic influence: "for, while Chinese and Japanese armaments were then still what they had been two hundred years back, the Westerners had made the industrial revolution in the meantime<sup>3</sup>. The greater successes achieved by the European powers in Asia during the nineteenth century can only partly be accounted for by the greater material strength of the West attained through industrialization.

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3 A.J. Toynbee, *The World and the West*, London, 1953, p. 52.

As Arnold Toynbee remarks, in the sixteenth century the West had presented itself primarily as a strange religion, come to undermine the traditional value-systems and hence the political power of the diverse Asian Kingdoms and dynasties. But in the nineteenth century Western civilization presented itself primarily as a strange technology. The West offered a new technology not only of superior material power but also of orderly administration, international trade and commerce, as the sources of that power.<sup>4</sup>

Thus the original Portuguese maritime expansion into the East, which began after the containment of Muslim power in the Mediterranean, in search of a monopoly of the spice trade, was characterised by a crusading spirit and much missionary zeal. In the course of the sixteenth century, however, much of the religious aspect of the Western penetration of Asia had been submerged and the economic aspects became predominant, especially after the Dutch had replaced the Portuguese as the leading maritime power.

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4 Ibid, p. 53.

While interest in the spice trade continued unabated, in the course of the seventeenth and eighteenth centuries, the pattern of trade was marked by European imports of Asian luxury goods. These early trading connections between Europe and the tropics were soon to become the channels for the establishment of a more permanent economic relationship.<sup>5</sup> Hitherto, European demand for imports had been confined almost entirely to final consumption goods. But the expansion of manufacturers in Europe in the eighteenth and nineteenth centuries gave rise to a new type of demand, the demand for sustained raw materials supply for several large-scale industries. Thus the economic aspects of these East-West encounters may be said to have reversed themselves in the course of the Vasco da Gama epoch. In the beginning it was the rare, new and exotic luxuries of the East that had exerted a powerful influence upon the European economy, but since the industrialisation of the West, "it is the demands of Europe and/

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5 I.C. Greaves, *Modern Production Among Backward Peoples*, London, 1935.



and America which have been transforming the customary economy of the tropics<sup>6</sup>."

It is the extensive development of tropical production of raw materials, both agricultural and extractive products, characteristically under European political and economic control, that marks the modern phase of this epoch. Whether one regards the East-West contact as primarily being "Encounters Between Civilisations," as Arnold Toynbee does, or, as in Panikkar's view, "the imposition of a commercial economy" upon agricultural producers in Asia, the modern period becomes economically the most significant part of the epoch. It is during this period that the most extensive and most sustained contacts have come to be established between the West and Asia. It is the period to which historians will look back to for evidence of how the spiritual, scientific, and material revolution which began in Western Europe with the Renaissance was spread to the rest of the world.<sup>7</sup>

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6 Ibid, pp. 21-26; see also G.U. Papi, *The Colonial Problem- An Economic Analysis*, London, 1938, pp. 10-11.

7 R. Emerson, *From Empire to Nation*, Camb., Mass.,/

Whether future historians would agree with Arnold Toynbee "of this impact that it was so powerful and so pervasive that it turned the lives of all its' victims upside down and inside out - affecting the behaviour, outlook, feelings and beliefs of individual men, women and children in an intimate way.<sup>8</sup>" is however, doubtful. While historians have been content to take a generally uncritical and overall view of this period<sup>9</sup>, social scientists and especially those immediately concerned with problems of economic development have increasingly come up with a different picture. Investigating the non-appearance of an "inner self-sustaining momentum" towards economic development, from the Caribbean in the West (across Africa and Asia) to the Philippines in the East, they have been able to identify a new type of national economy that has been variously described as an 'export' economy or a 'dual' economy.

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contd. 1960, p.6.

8 A.J. Toynbee, "Encounters between Civilisations," Harper's Magazine, April, 1947.

9 A well known exception is Emerson who states, /

Although minor variations exist, they are mainly characterised by the co-existence of an enclave modern industrial sector, with advanced technology and enterprise, and a predominant subsistence sector, where traditional methods of production have scarcely changed<sup>10</sup>

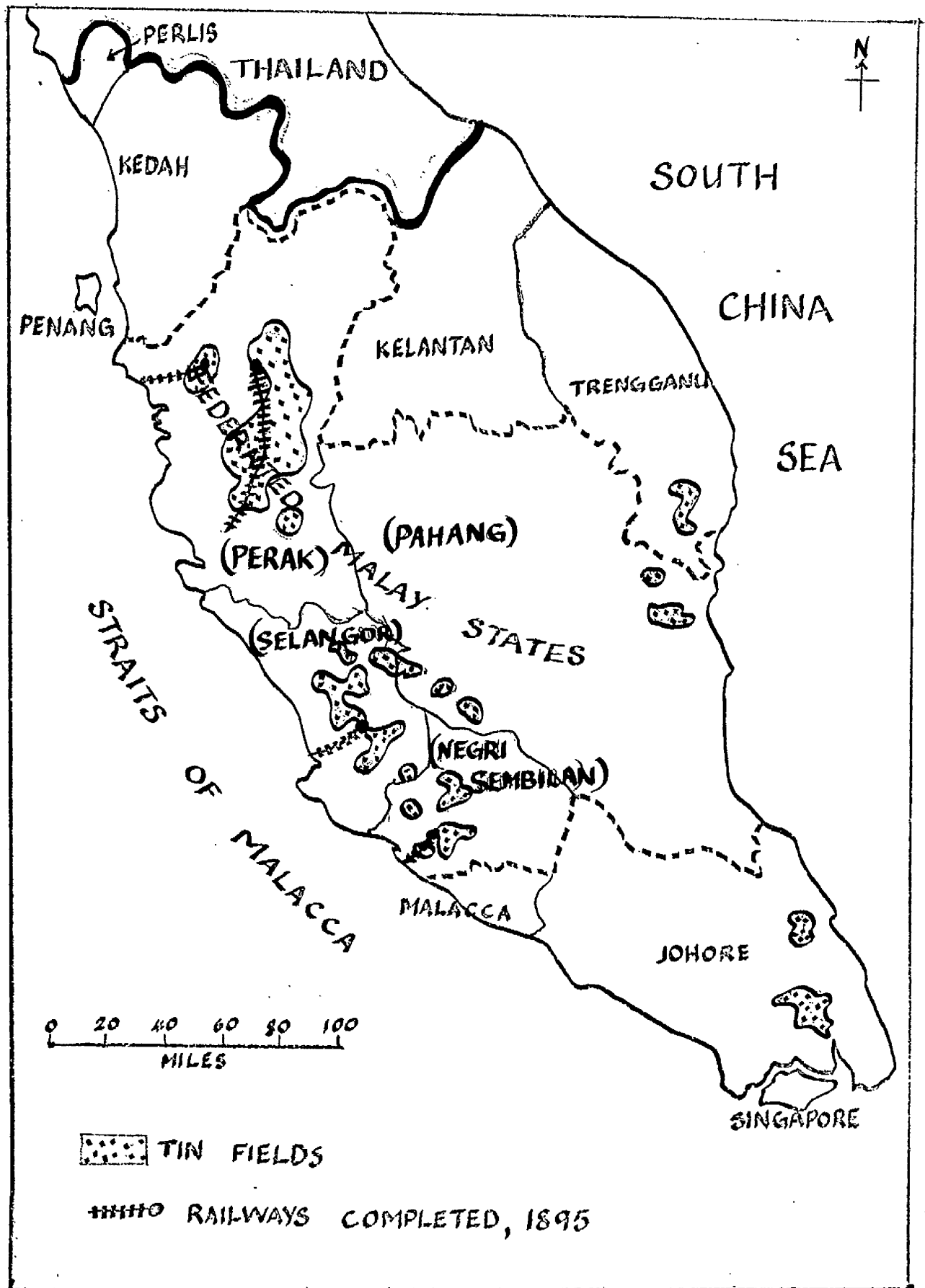
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contd. "A superstructure of material modernity has been erected, usually directly under alien auspices, which interpenetrates the old society but has neither effectively merged with it or taken it over;" op. cit. pp. 182-185. See also W. Woodmuff, *Impact of Western Man: A Study of Europe's Role in the World Economy, 1750-1960*, London 1966.

10 see W.A. Lewis, *The Theory of Economic Growth*, London, 1954, in the Manchester School of Social Studies, and his article "Economic Development with Unlimited Supplies of Labour." Hla Myint, *The Economics of the Developing Countries*, London, 1964.

These national economies have characteristically grown under the impact of Western (chiefly European, but also some American) capital and enterprise, devoted to the introduction and subsequent expansion of raw material production for export to industrial consumers in Europe and America. Although the initial impact of foreign capital and enterprise on these traditional economies was such as to cause unprecedented economic expansion in terms of employment creation and the introduction of socio-economic infrastructures, these developments have not produced any long-run self-sustained economic growth. Further, this economic expansion has proved highly specific in its' orientation, the benefits accruing almost exclusively to the export industries and ancillary trades and professions. The marginal changes in the subsistence sector as a result of this impact have been confined to the few farmers who have become complete or partial producers of export crops. Although the extent of peasant production of export crops has varied from country to country and even within the same country over different periods, it is significant to observe that their small-holdings have generally failed to achieve commercial efficiency.

Fig. 1  
A MAP OF  
THE MALAY STATES



They have merely become a subsistence fringe. The introduction of foreign factors in order to start the new export industries has thus produced not only a dual economy<sup>11</sup> but has also brought about a plural society wherein the economic activities of the population have tended to follow strictly ethnic delineations.<sup>12</sup> With the passing of Western political dominance and tutelage in these countries, the new national leadership have been faced with immense problems of economic development under population pressure and of resolving the economic imbalance and its' more serious political implications.

By the time the British undertook their decisive intervention in the Malay States in the latter part of the nineteenth century, the Peninsula had for hundreds of years been under a quasi-domination by the European maritime powers.

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11 An illuminating study of the economic development implications of such a structure is given in R.S. Eckaus, "The Factor Proportions Problem in Underdeveloped Areas" Amer. Econ. Review, Sept., 1955.

12 J.S. Furnivall, Colonial Policy and Practice, London, 1946.

Both the Portuguese who took Malacca in 1511 and the Dutch who replaced them there in 1641, had intervened in the affairs of the hinterland at will. But the European Powers were content to hold on to their strategic maritime role as guardians of the Straits of Malacca and to reap the benefits of a monopoly of the seaborne-trade. They had not felt the need to take over the government of any extensive territories on the Peninsula. The history of Malaya since the beginning of the sixteenth century is the confused story of the struggles of regional chiefs or 'rajahs' and their intrigues with the European powers to secure help for their precarious local or regional supremacy. In the face of recurrent conflicts between the local Malay courts, the policies of the Portuguese and the Dutch in Malacca had been twofold: a) to maintain adequate influence over the Malay states at all times and b) to avoid large military and administrative expenses attendant on territorial expansion.<sup>13</sup>

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13 R. Emerson, *Malaysia: A Study in Direct and Indirect Rule*, Kuala Lumpur, 1964, p. 15.

The political systems in the Malay states were already in a flux when Light in 1786, formally took possession of the island of Penang on behalf of the East India Company. The Sultanates in the various Malay states were in the process of disintegration due to external wars and internal feuding. Being tributary states of Siam, they were constantly intriguing with foreign powers to neutralise Siamese suzerainty over them. The weakness of the Malay states was further aggravated by feuds arising within the Malay courts themselves, respecting the succession, the division of power among the regional chiefs and so on. This process was continued throughout the first three quarters of the nineteenth century when the East India Company tentatively began to consolidate its position on the Straits of Malacca by acquiring Singapore in 1819 and Malacca, in 1824. But the British Straits Settlements were content to promote trade and commerce, undertaking nothing more elaborate than an occasional primitive expedition into the Malay hinterland.



In this they were conscious of the same economic realities as their Portuguese and Dutch predecessors.<sup>14</sup>

Meanwhile the mining of tin had produced a major social and economic change in the Western states of Malaya, particularly Perak, Selangor and Sungai Ujong. Revenue from tin had come to assume a new significance as the mainstay of the Malay political system.<sup>15</sup>

Although tin had been mined and exported from the Malay states as far back as historical references obtain, until about 1620 mining had been entirely in the hands of Malays. The output of tin ore had continued to be small in volume because the Malays being primarily agriculturists undertook mining on a part-time basis in between their agricultural pursuits.

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14 see E.A. Mills, British Malaya, 1824-67, Singapore 1925 for a detailed account of this period.

15 J.M. Gullick, Indigenous Political Systems of Western Malaya, London, 1953.

In addition, their mining technique was essentially suited to small-scale operations, requiring perhaps the labour of not more than the members of the immediate family and involving very elementary tasks. The mining of tin involved the digging out of the 'pay dirt' (known as 'kerang') and shovelling it into a stream of running water: the heavier particles of metal that remained at the bottom of the stream were collected and melted in a charcoal furnace and cast into ingots. Round about 1620 local Malay chiefs began to encourage immigration of Chinese workers from the southern provinces of China (Kwangtung and Fukien) to work the tin in their areas. These Malay chiefs were probably aware of the large output of tin from the Chinese operations on the Island of Banca, off southern Sumatra, which was under the Dutch. In 1624, there were around 1,300 Chinese miners working in the two states of Perak (Kinta) and Negri Sembilan (Inak and Sungai Ujong). It is clear from a contemporary description, that the Chinese brought with them the technique already established as the pattern on Banca island.<sup>16</sup>

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16 J. Crawford, *History of the Indian Archipelago*,/

Their technology, although crude in terms of later developments in the mining industry, was superior to that of the Malays. But it was not such a different technique as to have presented any difficulty to any Malay who wanted to adopt it. The significant difference was that the Chinese technique required full time workers. As the Chinese miners used organised wage-labour, their mining operations covered a larger area; and often were worked to great depth. On account of the heavy rainfall, these mining holes required constant attention or they could be flooded out. Flood-water was the bane of open-cast mining and the Chinese were able to adapt the waterwheel and the chain pump, used for irrigation in China, to their new tasks of drainage.<sup>17</sup> Between 1840 and 1860, the major mining areas had passed into the occupation and use of Chinese miners under contracts with Malay chiefs.

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contd. Vol. III, Edinburgh, 1820, pp. 450-466.

- 17 A. Skinner, An Account of a Visit to the Malay States, Straits Settlements Gazette, 1875.

The dynamics of the new industry were such that the Malay chiefs who had initially shared the control and profit of the mining operations with Chinese miners were soon content to leave the whole industry in Chinese hands. The Malay chiefs were satisfied with the receipts extracted from export levies on Chinese worked tin. The attractions of thus extracting revenue from exports of tin must be accounted as one of the major factors that led to the disintegration of the centralised Sultanate administration in the Malay states into a decentralised system of local governments of distinct chiefs, in the course of the nineteenth century. The expansion of tin mining in the Malay states brought about two results in the western states of Malaya that proved the immediate causes of British territorial expansion into the hinterland. Firstly, unprecedented revenues from tin brought about greater feuding in the Malay courts and led to increased warfare between petty local chiefs. Secondly, the Malay states were both physically and financially unable to meet their increasing administrative burdens brought/

brought about by Chinese immigration.<sup>18</sup>

Malay chiefs or rajahs had adopted the expedient of conferring on the Chinese who owned the major mining concession, the title Capitan China, thus giving him exclusive right of administration over all Chinese in his region. In addition to disturbances caused by rival concessionaires, there were frequent skirmishes between local chiefs as well as between rival claimants to chieftainship. Although the new Governor of the Straits Settlements was trying to apply as vigorously as ever the policy of non-interference in the affairs of the Malay states, this policy, which had been fervently espoused by both the East India Company and subsequent Administrations based on British India, was proving increasingly untenable for those directly involved in the administration of the Straits Settlements.

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<sup>18</sup> Emerson, *Malaysia*, op. cit., pp. 116-117.

As the Governor, Sir Harry Ord, intimated to the Secretary of State for the Colonies: "In fact the present state of affairs in the Malay Peninsula is that the richest part of it is in the hands of the lawless and turbulent and, with the exception of Johore, it is only in those states dependent in a certain degree on Siam that order is preserved.<sup>19</sup>" This difference in the state of affairs in Johore is attributable to the fact that since Raffles founded Singapore in 1819, the British administration there had been able to effect an increasing level of de facto control over that state. The commercial interests of British and Chinese trading communities in the Straits Settlements had begun to express serious misgivings about the future of the Settlements as entrepots, if the lawlessness in the Malay states was allowed to continue. The administration of the Settlements themselves was becoming jeopardised because of the flare up of open hostilities at the ports where the headquarters of the rival Chinese tin operators were situated.

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<sup>19</sup> as quoted by Emerson, Ibid., p. 114.

During the period 1862-73 the state of Perak, with its tin-rich Larut district, was in the grip of political and economic anarchy, wracked by three different claimants to the Sultanate and rivalries among Chinese tin operators. Tin mining had practically ceased and the trade of Penang had slumped as a consequence. But until late in 1873 the Governor of the Straits Settlements could not adopt a positive policy towards the Malay states because of strict instructions from the Colonial Office not to get involved. But in September 1873, fresh instructions arrived from the Colonial Office, which appeared to the new Governor, Sir Andrew Clarke, to give sufficient authority to undertake 'the British forward movement' or the extension of Pax Britannica to the Malay states.<sup>20</sup>

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20 Ibid; p. 130; see also C.D. Cowan, British Intervention in the Malay States, London, 1959. C.H. Parkinson, British Intervention in Malaya, London, 1959.

Although the formal installation of British officers in each of the States of Perak, Selangor and Sungai Ujong in the course of 1874 had made some historians remark on a sudden outburst of imperialist sentiment,<sup>21</sup> the causes of that action lie in the trading history of the Straits Settlements. Over the greater part of the first three quarters of the nineteenth century, the chief concern of British administration in the Straits territories was the extension of trade. The establishment of Penang and Singapore as well as the destruction of the Dutch trading monopoly at Malacca were essential parts of this policy. But equally essential was the preservation of an orderly political and administrative system in the Malay states. It is interesting to observe that the extension of the Residential system in the course of 1874 was justified in terms of existing Treaties with the respective Sultanates, which among other things, undertook to provide orderly/

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<sup>21</sup> see, for instance, Emerson, Malaysia.



orderly administration and to put down piracy along the coastal waters.<sup>22</sup> The signing of the Anglo-Dutch Treaty of 1824 in London between the two major colonial powers settled the boundaries of their respective spheres of influence "All land right of the East India-men's course to China now fell within the Dutch sphere of influence, and all land to the left of that course fell within the British sphere."<sup>23</sup> Bencoolen, which was a rather strategic British foothold on the Dutch sphere of influence was exchanged for Malacca. The rationale for a British policy of forward movement into the Malay States had come into existence long before 1874. The next two decades saw the consolidation of British rule in the Malay States through the extension of the Residential system to Pahang and the integration of the remaining eight states around Sungai Ujong into the new State of Negri Sembilan ('nine states').

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22 Ibid. For an illuminating account of the origins of Malay piracy in the extension and control of trade by Europeans, see Tarling, *Piracy and Politics in the Straits*, Melbourne, 1950.

23 Swettenham, *British Malaya*.

The principles of government that sprang up under the Residential System were those of Indirect Rule, that is, a system under which people are "governed with a view to, and on the method of, enlisting native co-operation, through the aid of native institutions, in the ordinary conduct of government."<sup>24</sup> But as each of the Treaties that had extended the Residential System into the Malay States had practically restricted these native institutions to administering matters that exclusively touched the Mohamedan religion and traditional Malay custom,<sup>25</sup> the practical consequences of indirect rule were hardly distinguishable from those of direct rule.<sup>26</sup>

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24 E. Barker, *The Ideas and Ideals of the British Empire*, Cambridge, 1942.

25 W.G. Maxwell and W.S. Gibson, *Treaties and Engagements Affecting the Malay States and Borneo*, Lond., 1924.

26 A. Barker states, "in practice there is no great difference between (them) which are determined by differences of Legal status under the system of international law," *op. cit.*, p. 140.

Thus the practical consequences of British administration of these four States and the resulting economic expansion produced the need for greater rationalization of the government. The establishment of a federation of these states, the Federated Malay States, in 1895 was a direct result of these tendencies.

The four northern states of Kedah, Perlis, Kelantan and Trengganu which had remained under Siamese influence till 1909 passed into the British sphere in that year. Their late entry into the British sphere of influence may be attributed to the fact that they had always remained insignificant contributors to 'Straits produce'.<sup>27</sup> Although the native governments of these States, with the possible exception of Kedah, were very primitive, no British forward movement took place here.

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<sup>27</sup> 'Straits produce' used to be a prestigious-commercial term that was applied to all agricultural and mineral products that were grown or produced in the Malay Archipelago and had been brought to British Malayan ports for the purpose of grading, bulking or otherwise preparing for shipment to consuming countries.

The British Advisers who were sent to these states were strictly in the position of consultants whereas the Residents in the Federated Malay States were virtually sole managers in their respective administrations.

Taking the whole Malay Peninsula as a single territory for economic development purposes, it can be shown why economic dualism has coincided so closely with the broad divisions between the Federated and the Unfederated Malay States. With the exception of Johore, the Unfederated Malay States came under British influence only in the second decade of the twentieth century; and even then this influence was tentative, uncertain and uneven in its effects. Immigrants had been less attracted to these parts not only because of their being less accessible regions of the Peninsula, but also for lack of economic opportunities. These states remained traditional Malay monarchies, substantially dependent on a peasant rice-farming economy, benefiting only marginally from the 'export economies' of the Federated States and Johore. Thus the annual revenue of these states failed to register the phenomenal increase of the Federated States. Their **fiscal** practices showed little change from the traditional pattern.

Thus while in the Federated States Import Duties and the Opium monopoly were able to realise 29 per cent of the total revenue, these taxes on the average accounted for about 60 per cent of the total revenue of the Unfederated Malay States. In 1937, while the Federated States showed an annual revenue of \$ 80 million and Johore \$ 20 million, the Unfederated States could scarcely account for \$ 12 million. Moreover, the British Advisers in these northern States were concerned to show the Malay administrators the virtues of conservative budgetary policies based on annually balanced budgets and, possibly, the accumulation of a modest annual surplus to meet likely capital expenditure. While these policies were, no doubt, necessary in view of their past record of indebtedness and unproductive expenditure, the social and economic development of their peoples was delayed. This was in contrast to the vast social and economic improvements that accrued to the peoples of the Federated States. The characteristically larger urban populations in these states were able to demand, and get, social, health and educational/

educational improvements, which were either not in demand, in or, beyond the resources of, the northern States.

Thus the economic development of Malaya, since the whole Peninsula came under British protection, has been characterised by a dualistic pattern of development. The Federated States and Johore had in the course of the last quarter of the nineteenth century come under the impact of foreign capital and enterprise. Under more or less direct British rule, these States had adopted administrative systems that could not only encourage further economic expansion but would also increase the financial resources of the States. The State of Johore, although outside the Federation, was remarkably similar in its development; the progressive Johore Sultanate being very receptive to techniques of administration and development adopted in British Malaya. The four northern States that had remained under Siamese suzerainty until 1909 were not only latecomers but also proved unwilling and only partial converts to this modernising process, their progress varying with the length of their contacts with the West.

Another crucial factor in the differential development patterns of the Malay States under British rule was the degree of their accessibility. Generally, the States on the Western coastline were more rapidly developed; thus Pahang, in the Federation, remained less developed than Johore, although it had been absorbed into the residencies system in 1895. Similarly, the east coast States of Kelantan and Terengganu were the least developed States of the whole Peninsula.

By the 1920's and 1930's when the various new industries (rubber being foremost) had been established, it was possible to show that those States that had become more committed to the export trade invariably had a higher ratio of immigrant communities in it. In these comparisons that illustrate the divergence in economic progress among the States of Malaya, it is important to take account of Johore as an exception that falls more in line with the Federation's pattern of development. Thus in the four northern Unfederated States, although the total population was two-thirds of that of the Federation, the total exports was only/

only about a fifth and the total revenue in 1932 was less than a fifth of that of the Federation.

Table I.I

The Population of Malaya: Regional  
Distribution and Ethnic Composition.

State	Population		
	Total ( '000 )	Immigrants Percentage of Total	Malays as Percentage of Total
Federated Malay States	1,171.3	65.3	34.7
Unfederated Malay States			
Johore	505	53.6	46.4
Kedah	429	33.4	66.4
Perlis	49	19.2	80.8
Kelantan	362	8.8	91.2
Tringgani	180	8.5	91.5

Source: The Population Census of Malaya, 1931.



Table 1.2

A Comparison of the Level of Exports  
and Revenue in the various states  
of Malaya

State	Year	Exports	Revenue
		\$ per head	\$ per head
Federated Malay States	1929	203	47
	1932	51	25
Unfederated Malay States			
Johore	1929	196	34.5
	1932	58.5	22.5
Kedah	1929	80	16
	1932	27.5	12
Perlis	1929	NOT	128
	1932	Available	8
Kelantan	1929	22	6.5
	1932	6.5	4.5
Trengganu	1929	38	7.5
	1932	22	5.5

Source: F.M.S. Annual Reports and R. Emerson, Malaysia.

The tabulations, on pages 32 and 33, will show two quite divergent characteristics of the dual economy as well as the basic instability of the modern or export sector. Thus an examination of the figures of revenue and exports, per head, for the two years 1929 and 1932, for the various States is instructive. The year 1929 marks the height of the boom period in the late '20's when world market prices for Malaya export products were relatively high; and 1932, in the midst of the world depression, shows a considerable fall in the value of Malayan exports. The economic vulnerability of the Federated States and Johore to fluctuations in export earnings was greater in so far as their greater dependence on the export industries and their ancillary trades and professions for revenue was the established characteristic. Another important characteristic of the dual economy in Malaya has been the relative displacement of the Malay population by the immigrant Chinese and Indians in the urban areas.

Table I.3

The Ethnic Composition of Urban  
Population in Malaya, 1911 and 1921.

	(Percentages)					
	Malays		Chinese		Indians	
	1911	1921	1911	1921	1911	1921
Federated Malay States	11.8	9.9	66.7	65.1	18.4	22.1
Unfederated Malay States						
Johore	40.3	33.3	49.2	52.9	6.7	10.8
Kedah	36.0	30.8	52.3	51.4	6.5	16.2
Kelantan	88.2	78.9	9.0	15.0	2.1	4.8
Perlis	35.9	26.8	47.8	55.9	8.2	13.7
Terngganu	91.7	87.2	7.8	11.3	0.1	0.6

Source: The Population Census of Malaya,  
1931.

As Table I.5 shows this concentration of immigrants in the urban population of Malaya was particularly marked in the States which had access to the western coastline of the Malay Peninsula. Thus, although the figures for the Federated Malay States do not include the major ports, Penang and Singapore, the immigrant population accounted for well over 80 per cent of the urban population in 1911 and 1921. In the unfederated Malay States the relative displacement of the Malay population in the urban areas was quite significant although in the East Coast States of Kelantan and Trengganu they still formed the overwhelming majority. In the course of the introduction of the export industries lines of communication became established which were primarily determined by access to sea routes and by sources of raw materials. When large-scale immigration became necessary for the expansion of export production population movements in Malaya followed the same routes. Such a development pattern has meant a rather arbitrary subdivision of the territory into two broad geographical regions, one specialising in export production and the other in traditional subsistence agriculture.

The economic characteristics of the population have thus tended to be unduly influenced by their geographical distribution and their ethnic composition.

## Chapter II

### The Indenture System of Labour Engagement

The origins of labour as a significant economic problem in the Malay Peninsula can be traced to the founding of Penang by Francis Light in 1786.<sup>1</sup> The characteristics of the settlement that became established on this tiny island possession of the English East India Company were soon to acquire the distinction of having laid the foundations and established the pattern of future economic progress in the Malay Peninsula. The East India Company had during the preceding twenty-five years vastly expanded its' China trade, which consisted in the one direction of large cargoes of tea from Canton, and in the other of supplies of opium from Bengal.

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1 T.J. Newbold, Political and Statistical Account of The British Settlements in the Straits of Malacca, London, 1839; J. Crawford, History of the Indian Archipelago, Edinburgh, 1820.

The consequent increase in the number of ships, and, especially, the variety of their types, that came into the China trade raised the need for a suitable port-of-call en route, especially in the Straits of Malacca. As Light, the would-be founder, put the case for Penang to the Directors of the East India Company, "Not only commanders of British vessels but foreigners, continually complain of there being no place of safety east of the Bay of Bengal for ships to shelter in and refit at.<sup>2</sup>"

Penang was founded to meet this need. But it was realised that it would also be a useful trading station, capable of handling the entrepot trade from the neighbouring territories, especially in the Malay Archipelago. It was also intended that Penang should as a free port be sufficiently attractive to local spice traders so that they would gravitate there than to the Dutch-controlled ports.

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2 Quoted in F.A. Swettenham, *British Malaya*, London, 1929, p. 34.

It was increasing Dutch resistance to sharing the spice trade that led Light to introduce a plantation economy into Penang, so as to save themselves the "trouble and expense of importation."

In the last decade of the eighteenth century Penang had been established not only as a useful port-of-call and trading centre but also as a sizeable plantation economy.<sup>3</sup> Within a decade, pepper, which the East India Company had introduced on an experimental basis on the island, had risen to a record output of 4 million pounds, annually. But by 1810, it had dropped to 2½ million pounds and the steady decline in world prices for pepper had pushed production down to almost a quarter of a million pounds in 1835. Meanwhile Chinese planters, who had immigrated to Penang in increasingly large numbers, had successfully grown sugar-cane on Province Wellesley, a strip of the Mainland which Light had acquired from the Sultan of Kedah in 1800.

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3 G. Leith, *A Short Account of the Settlement, Produce and Commerce of Prince of Wales Island in the Straits* London, 1804.



European planters were soon to abandon pepper and spice gardens in favour of large-scale sugar plantations worked by imported Indian labour. The expansion of the plantation economy was to become even more critical to Penang after the founding of Singapore in 1819.<sup>4</sup> Both her entrepot trade and her significance as a port-of-call declined whereas Singapore profited in these respects. Serious economic difficulties were, however, temporarily avoided by the United Kingdom giving preferential terms to Penang sugar and rum. This, together with the more liberal terms which the East India Company offered those alienating land for plantation crops encouraged more European planters to invest in large-scale sugar cultivation. By the mid nineteenth century sugar and rum production had taken the place of pepper as the mainstay of Penang's economy. Spice-growing declined in importance in the 1860's, due to a blight that destroyed the trees, and coconut plantations took its place, remaining the second important cash crop of Penang.

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4 J. Low, A Dissertation on the Soil and Agriculture of the British Settlement of Penang, Singapore, 1836.

The successful establishment of a trading settlement required that a sufficiently large trading community be attracted to the area. The East India Company established not only law and order but also offered unrestricted trading opportunities on Penang for the Chinese, Indian and Bugis traders who came to the island by maintaining it as a free port. Immigrants who did not go into trade became cultivators either on their own account or as workers in plantations. Both the commercial as well as the agricultural labour force in Penang at this time were immigrants. Although a number of Malays moved into Penang from the mainland, especially from the State of Kedah, they were relatively few and, significantly, took no part in the new economic opportunities offered by Penang. They remained essentially rice cultivators, although they undertook wage-work from time to time as tree-cutters in land-clearing operations.<sup>5</sup>

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<sup>5</sup> Leith, op. cit. p. 20.

As the problem of adequate labour supply became the pre-occupation of an expanding plantation economy, organised recruitment of labour became a necessity for those operating plantations.

The ethnic origins of the immigrant labour force that became predominant in the economy of Penang can largely be explained by the historical circumstances attendant on the founding of Penang. As Penang became an East India Company possession, governed from Bengal, it was inevitable that there should be a considerable Indian element in the population. Not only the army garrison stationed there, but also the penal colony established by the East India Company, was made up of Indians. Further, not only British administrators but also British planters and businessmen had brought their retinue of Indian servants. Indian merchants and traders had been encouraged by the regularity of shipping from India to the Straits of Malacca to expand their activities to Penang.<sup>6</sup>

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6 Light, in the Journal of the Indian Archipelago and East Asia, Vol. V, 1850, p. 9.

The greater proportion of them, however, merely resided for a few months, perhaps until they could sell off their goods and return with a fresh cargo to India. The more permanent Indian immigrants were to be found among those who were brought to work in the coconut and sugar-cane plantations owned by Europeans. The required labour force for each plantation would be contracted for by the planter who would provide the shipowner or broker an advance on the passage and maintenance of his batch of labourers, the balance of the shipowners' costs being met on delivery of the labourers. The labourer in turn would engage to work in the plantation from two to three years, or longer if he could not clear his debts.<sup>7</sup> This method of labour recruitment came to be known as the 'indenture' system and was the prevalent form in the plantations until it was rendered ineffective in 1908.

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7 G.W. Earl, in *Journal of the Indian Archipelago and East Asia*, New Series, Vol. IV (1862).

The characteristic features of Chinese economic activity in South East Asia had become well-established long before 1786 when Penang was founded.<sup>8</sup> At the turn of the seventeenth century in the Spanish settlement of Manila about 20,000 Chinese had achieved a virtual monopoly in the retail commercial and industrial life.<sup>9</sup> By 1720 there were about 80,000 Chinese in the Dutch settlement at Batavia working as merchants, shopkeepers, artisans, miners, farmers and coastal traders. Sizable Chinese settlements were also present at this time in Java, engaged in the sugar industry, and on the island of Bangka, mining tin. The large and regular traffic of immigrants between China and the 'Southern Ocean' (Nan Yang) had been built up by the junk routes.<sup>10</sup>

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8 V. Purcell, *The Chinese in Southeast Asia*, London, 1951.

9 B. Wickberg, *The Chinese in Philippine Life*, Yale, 1965.

10 W. Gungwu, *A Short History of the Nanyang Chinese*, Singapore, 1959.

The merchant-owners of junk fleets had established themselves not only as traders and entrepreneurs but also as brokers or contractors for labour. The immigrant passengers remained indebted to the junk-owners until the debts had been settled or they had 'worked off' their debts through unpaid labour services to their new employers. As a contemporary observer noted, "This kind of negotiation is now grown into a regular system of trade to the extent of 10, or 12,000 men annually, and has at this day half peopled the islands of the great Archipelago."<sup>11</sup> In the initial phase of the settlement of Penang, the immigrant Chinese were largely workers on their own account who had immigrated from the neighbouring territories. It was not until the subsequent expansion of the sugar plantation economy that indentured Chinese labour had been extensively used in Penang.

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11 A letter in the *Journal of the Indian Archipelago and East Asia*, Vol. VI (1852).

Pepper cultivation had largely remained a small-holders' operation but sugar-cane cultivation was a large-scale operation that required not only extensive areas of fertile land but also considerable capital to establish even the most rudimentary type of sugar refinery. The Chinese sugar-producers in Penang were able to meet their shortage of labour through arrangements with labour-contractors or brokers who were also masters of the junks that brought the immigrants. The Chinese population of this sugar-growing region rose from 325 in 1820 to 4,107 in 1844 and subsequently 7,204 in 1860. The tremendous increase in the business of importing indentured labour was only partly due to the expansion in the plantation economy. In the Malayan hinterland, a considerable influx of Chinese tin miners were already active since the 1820's. The local Malay provincial rulers and district chiefs had encouraged Chinese immigration largely with a view to replenishing their depleted revenue from trade.<sup>12</sup>

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12 L.A. Mills, British Malaya, 1824-67, Journal of the Straits Branch of the Royal Asiatic Society (J.S.B.R.A. S.) Singapore 1925.

Thus the expanding plantation economy and tin mining in Malaya had rendered the organised supply of indentured labour (referred to disapprovingly as, 'the pig business' by the Chinese) as a very profitable enterprise.<sup>13</sup>

Labour shortage had become so acute a problem that Chinese entrepreneurs were concerned to develop institutions that would ensure a complete control over their labour force. The emergence of the all-pervasive secret-society organisations, comprising the employer as head, and employees and other workers as members of different rank, among the Chinese in Malaya at this time was fundamentally a consequence of this labour shortage. Although various attempts have been made to explain the 'secret society' phenomenon in cultural, social, political or even religious terms,<sup>14</sup> it is/

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13 A good account of the abuses of this 'pig business' is to be found in the Report (1881) of the Protector of Chinese in Straits Settlements: Gazette, 1882

14 see e.g., V. Purcell, The Chinese in Malaya/



is difficult to appreciate its' effective role other than as an economically efficient though socially primitive organisation of scarce resources for profit.<sup>15</sup> Although employers found it useful to adopt the secret society as a convenient organisation for controlling their labour force, they were incapable of becoming efficient administrative bodies over large territories. Rivalries among Chinese entrepreneurs for tin mining concessions were aggravated by uncertainties of political control among the Malay chiefs. The fact that the Chinese labour force had been organised into secret societies provided employers with a captive soldiery who would fight all the more tenaciously to protect their employment.

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contd. London, 1948; W.A. Pickering, Chinese Secret Societies, J.S.B.N.A.S., Vols, II and III (1879-79)

15 S.L. Blythe, Historical Sketch of Chinese Labour in Malaya, JMBRAS, Vol XX.

The fighting that periodically raged between 1860 and 1874 in the tin-producing states of Sungai Ujong, Selangor and Perak not only brought the economic life of these territories to a standstill but also endangered peace among the immigrant Chinese settled in the British-administered Straits Settlements. The British intervention of 1874 whereby British Residents and Advisers became accredited to the Malay states filled the political vacuum in these territories but it could not immediately wipe out the economic basis of the secret societies.<sup>16</sup>

At the time of the British extension of administrative control over the Malay states, the Peninsula was sparsely settled and was remarkable for its "demographic immaturity."

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16 Ample evidence that these 'secret societies' were hampering economic expansion may be found in Straits Settlements Labour Commission Report, 1890.

Settlement patterns arose out of the need to use rivers as the lines of communication, within the state as well as with the outside world, and the necessity of siting the 'kampong' or rural settlement near the more fertile alluvial soil of river banks suitable for rice cultivation.<sup>17</sup> The Malay Sultanate was the formal, if not always the effective, Government in the respective states, its' effective rule varying with the extent to which the various district chiefs or rajahs were prepared to observe fiscal neutrality in deference to the Sultan. So long as taxes on trade were the mainstay of government revenues, a Sultan residing at the mouth of the main river of the State might be able to collect more revenues than his chiefs and thus be stronger than they were. Extension of Chinese tin-mining in the interior not only resulted in a dispersal of Chinese labour but also of Malay power, as now the local chiefs had greater opportunities to tap revenue from local control of dispersed Chinese mining settlements.

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17 E.H.G. Dobby, "The Ecology of Southeast Asia," *The Geographical Journal*, 1946.

Disintegration of the indigenous political system in these states was accelerated by the inherent instability of the Chinese secret society method of controlling immigrant labour.<sup>18</sup>

At the time of British intervention, the total Malaysian population in Perak, Selangor and Negri Sembilan was probably not in excess of 70,000.<sup>19</sup> Although accurate figures are not available for earlier periods it is unlikely to have been much greater. Although considerable numbers of Malays were believed to have fled their chiefs after the local wars, most of them had returned after the Residential system was introduced. The population was distributed through Kampongs or settlements which were uneven in size and pattern of distribution.

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18 J.M. Gullick, *Indigenous Political Systems of Western Malaya*, London, 1951.

19 Swettenham, *op. cit.*, p. 21.

Within the Sultanate, the local chiefs enjoyed varying degrees of independence: the extent of independent political power that the chief could assume was directly proportional to the size of the manpower he could muster from the villages under his control. But the chief was restrained from exercising his absolute control over the 'Kampong' population ruthlessly by the fear that they might flee his district, or, worse, that they might move to the district of a rival chief. The success of the chief, therefore, depended on his achieving some kind of equilibrium between the level of his revenue and the size of manpower under his control.<sup>20</sup>

In the context of the prevalence of Malay subsistence economy, the possibilities for the chief to exact an economic surplus either through a tax on their production or through forced labour were limited. Hence in the Malay states the prevalent source of revenue was the tax on trade.

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20 J.M. Gullick, *op. cit.*, p. 43.

With the increasing disintegration of the Malay states due to rivalries between chiefs, it was clear that only those chiefs who had large Chinese-operated tin mines in their districts would be able to survive. Thus the anarchic condition in the Malay states in the decades immediately preceding British intervention can be attributed to the general manpower shortage as well as the lack of social and administrative institutions for efficient management of manpower.

The first tasks facing the British Residents appointed to the States of Perak, Selangor and Sungei Ujong were the re-establishment of civil government formally under treaties with the Sultirates recognised by the British and the restoration of the Chinese tin-mining settlements there to their former level of activity. During the disorders of the previous decade most of the mines had been flooded out, the mine-houses burnt and machinery destroyed.<sup>21</sup>

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<sup>21</sup> See S.M. Middlebrook, J.M.B.R.A.S. Vol. XXIII Pt. 2. and also J.M. Gullick, J.M.B.R.A.S. Vol. XXVI Pt. 3.

The very same immigrant community whom Light had described as "the most valuable part of our inhabitants" and whose work-discipline successive British administrators had admired, were now the chief cause of the economic standstill. As they set about the task of restoring civil administration, the administrators were aware that they could no longer avoid meeting the problems of immigration in general and the management of Chinese labour in particular.

The economic opportunities of Malayan tin alone could not have accounted for the large-scale immigration of Chinese overseas, especially to Southeast Asia. The attitude of the imperial Chinese government to emigrant Chinese had at best been ambivalent, until the 1860's.<sup>22</sup> Although China disapproved of large-scale emigration and its' adverse effects upon its' economy, local and provincial officials were lax in enforcing restrictions on emigration because they were able to have a private share in the wealth of returning emigrants.

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22 Te Chen, *Emigrant Communities in South China*, N. York, 1940, see also V. Purcell, *The Chinese in Southeast Asia*, op. cit.

After the establishment of the Treaty Ports, the Chinese government in the peace treaty of 1860 which they signed with Britain, acknowledged the freedom of Chinese citizens to emigrate to British colonies. Soon other colonial powers followed with similar treaty clauses in exchange for the right to establish Chinese consulates in their colonial territories. Even as early as 1842 the founding of Hong Kong had encouraged Chinese emigrants to British territories, because it served as a base from which Chinese emigrants could operate without the harassment of Chinese officials.<sup>23</sup> Thirdly, the harsh economic and social conditions attendant upon the Taiping Rebellion of 1850-64 were undoubtedly a major factor in inducing a higher level of geographical mobility than is customary among peasant communities. But the decisive factor, in the view of some historians, was the improvement in transportation, chiefly the growth of European shipping lines in/

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<sup>23</sup> Gungwu, op. cit., p. 11.



in response to increased trade and transportation of manpower.<sup>24</sup>

The immediate result of the extension of 'pax Britannica' over the Malay states was a significant growth in the immigrant population. As at this stage of Malayan development mining was the only industrial activity, the immigrants were wholly of Chinese origin. Their occupational distribution is interesting only in so far as it emphasises the dominance of tin-mining: about four-fifths of the immigrant Chinese were miners, the remainder, tradesmen, that is, blacksmiths, carpenters, shopkeepers and gardeners.<sup>25</sup> The following tabulation will give some idea of the rate of growth of the immigrant population in the years following the establishment of law and order in the states.

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24 Wickberg, op. cit. p. 61-63.

25 A. Skinner, Account of Visit to Malay States, S.S. Gazette 1875.

Table II.1CHINESE POPULATION OF PERAK AND SELANGOR

<u>YEAR</u>	<u>PERAK</u>	<u>SELANGOR</u>
1879	20,373	n.a.
1884	n.a.	28,236
1891	95,277	50,844

n.a. = not available

Source: Malayan Census of Population, 1947.

The serious difficulties of managing immigrant Chinese labour had yet to present themselves to the British administrators in the Malay states, but the size of the transit population that arrived at the Straits ports was already a strain on the Administration.

Table II.2

## Chinese Immigration and Tin Mining

Year	No. of Immigrants	Output of Tin (tons)	
	('000)	Perak	Selangor
1881	89.8	6,018	3,008
1882	101.0	7,227	3,391
1883	109.1	9,488	4,275
1884	106.7	10,190	4,561
1885	111.4	9,680	4,935
1886	114.5	10,991	5,897
1887	166.4	12,895	7,821
1888	166.3	13,026	8,079
1889	146.8	13,467	10,952
1890	132.2	14,117	10,389
1891	142.9	14,406	14,904
1892	138.5	16,538	12,390
1893	212.8	18,870	15,033
1894	152.8	22,953	22,341
1895	210.7	23,960	21,515

Source: Annual Reports of the Federated Malay States.

Chinese immigration into Malaya had not come under Government supervision during the greater part of the nineteenth century because the Straits Settlements continued to be administered from India under Indian laws. It was therefore not until 1867 when the Straits Settlements became a Crown Colony and independent of the Indian government that Chinese immigration became a matter of official concern. Even as early as 1823 when the great influx of Chinese immigrants had not begun Raffles had tried to check the grave abuses arising from the commercial character the 'coolie traffic' had assumed.<sup>26</sup> The Recorder of Singapore had ruled in 1835 that Raffles' scope for legislation was restricted to laws "for imposing taxes, the only purpose to which the Straits Government could legislate."<sup>27</sup> Secret societies had grown in numbers to protect the monopoly of agencies controlling Chinese immigrants and had begun to absorb a host of vested interests from the recruiting agent on the Chinese Mainland to the final employer in Malaya.

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26 S.S. Labour Commission Report, 1890.

27 Mills, British Malaya.

Due to rivalries among the secret societies and the spread of abduction and 'crimping' of immigrants and the demand from the Netherlands East Indies, the supply of labour to Malayan employers became uncertain. In 1877 the Straits Settlements government introduced the Chinese Immigrants Ordinance and the Crimping Ordinance and created the office of the Protector of Chinese Immigrants. The protector of Chinese in Singapore and the Assistant Protector in Penang were expected to bring the new arrivals into direct contact with the British Administration and to make them feel that there was a power both to protect them and to keep them in order.<sup>28</sup> Due to the inadequate strength of the Chinese Protectorate staff and their unfamiliarity with Chinese dialects and customs, they could not even claim nominal success in supplanting the role of the secret societies. The solution that emerged was a variant of the policy of 'indirect rule' which was already established as the cardinal principle of the British administration of the Malay States.

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28 Report of the Protector of Chinese for 1877,

S.S. Gazette, 1878.

One of the more successful Protectors of Chinese argued: "The Chinese ... is accustomed from infancy to learn upon or to dread some superior and ever present power, either in the shape of his Government, his clan or the village elders. I do not think any persons will say that they find anything of the sort in our complicated and, to the Chinaman, inexplicable course of law ... I can see no other way of ruling Chinese than by recognising the Secret Societies and by immediately commencing the training of a competent staff of officials, conversant with the Chinese language and mode of thought, to supervise and control them.<sup>29</sup>"

The unlimited prospects for tin-mining that had opened up in the Malay States and the steadily rising prices of tin-ore in world markets had induced a speculative character in all economic activity so that there was little concern for any official supervision and control of immigrant labour.

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<sup>29</sup> Pickering, op. cit.

The price of tin had risen from \$ (M) 20 a pikul,\* in the mid 1870's to above \$ 30 a pikul in 1879 and had remained at that level until 1890. The output of tin from the State of Selangor for this period will illustrate the rapid rate of growth of the tin mining industry as well as the mining population.

The supervision and protection of Chinese immigrants at the points of entry in the Straits Settlements by the officials of the Chinese Protectorate remained a difficult task as long as the bulk of the immigrants continued to be housed in privately-owned depots until they could be disposed of to their employers.<sup>30</sup> These depots also served as convenient places for the induction of the sinkhs into secret society organisations. The number of depots varied with the amount of immigrant traffic. The control which the secret societies had come to exercise over Chinese immigrant labour had reached into all corners of Chinese economic activity, so that the Secret Societies Ordinance introduced by the Straits Settlements in 1890 could only check the flagrant and more obvious violations of civil order/

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Continued

30 S.S. Labour Commission Report, 1890.

\* 1 pikul = 133.3 lbs.

order committed by them while at the same time the fact of registration accorded them a semi-official status at least in the eyes of the Sinkhehs. Moreover, the Chinese Protectorate were aware that beyond the entry points and in the country as a whole they could not check the activities of the secret societies.<sup>31</sup>

Table II.3

LICENSED DEPOTS FOR CHINESE IMMIGRANTS

YEAR	SINGAPORE	PENANG
1887	29	10
1888	41	9
1 1889	45	9
1890	30	13
1891	26	10
1892	18	14
1893	28	12

Source: Annual Reports of the Chinese Protectorate, 1887-93

<sup>31</sup> Ibid.



The hardships attendant on the conditions of work and wages of immigrant Chinese labour were very often far more serious than those involved with their recruitment and passage. The typical tin mine operator was seldom the full-fledged owner: he would have started off with an official prospecting licence, followed by an operating licence; and little else. The Chinese tin mining industry could not have established itself so extensively in Malaya without the ubiquitous Chinese credit system of financing enterprises.<sup>32</sup> In the tin mining industry this took the form of the merchant-trader in the town providing goods and food supplies to the mine operator on credit in exchange for a 10 per cent share of the gross output and the option to purchase the remainder at a price lower than the market rate. This came to be known as the 10 per cent truck system, although these arrangements varied considerably.

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32 M. Freedman, "The Handling of Money: A Note on the Background to the Economic Sophistication of Overseas Chinese." MAN 59 (1959);

The merchant-creditor was able to exact a higher percentage in cases where he had also provided the labour force. Caught in the grip of this vicious circle of credit, the mine operator, who remained nominal owner, became a mere shadow of the merchant-creditor. Although the mine-operator was in complete charge of day to day operations of the mine and hence of the welfare of his workers, labour relations began to assume the characteristic features of absentee-ownership and control. In fact the truck system worked so much to the disadvantage of the mine-operator that there were frequent cases of their absconding and leaving their labour force in the lurch, unpaid.<sup>33</sup>

Meanwhile, European capital which had gone largely into sugar-cane and coconut plantations in Province Wellesley and Penang, was venturing into coffee, tea and pepper cultivation in the Malay States.

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contd. see also Lea Williams, "Chinese Entrepreneurs in Java," *Explorations in Entrepreneurial History*, No. 5, (1952).

<sup>33</sup> Under the truck system the Chinese tin miners had reached a status that was "little better than/

From the early 1880's when European capital came to show an active interest in the Malay States, the European plantations had increased steadily. By 1897 in the leading States of Perak and Selangor there were about 150 estates with a total cultivated area of about 75,000 acres. Planters were becoming increasingly dependent on indentured Indian immigrant labour as neither the indigenous Malay farmers nor the immigrant Chinese miner found plantation work to his liking. The Indian Government did not allow Indian workers to emigrate to the Malay States before 1883, until they were assured that there would be proper supervision of living conditions by the Straits Settlements Administration. There was at this time a great demand for Indian emigrants not only for Malayan plantations but also for those in Ceylon, Burma and the West Indies.<sup>34</sup> The number of private firms that had grown in Southern India to specialise in recruiting Indians had formed a close ring and were able to maintain higher prices for their services.

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contd. slavery" - Letter in F.M.S. Annual Report for 1903.

34 S.S. Labour Commission Report, 1890.

The Malayan plantation employers had in response raised the period of indenture from one to three years and found great difficulty in holding on to their labour force.<sup>35</sup> Earlier attempts on the part of European planters to break the monopoly of the Indian recruiting firms had failed until the late 1890's when the 'Kangany' system, tried out in Ceylon, was adopted. Under this system the planters sponsored some supervisory staff from their estates with cash advances to recruit in India (preferably in their own native villages) for the plantations they worked in. The immigrant Indian workers did not sign any contract with his employer but was merely on a verbal monthly agreement. But through the 'Kangany,' who had initially taken the cash advances from the planters, they were able to have a considerable hold on their labour force, especially as the 'Kangany,' in turn, took some time to recoup his expenses from the batch of workers he had imported.

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<sup>35</sup> Ibid.

In practice however, the 'Kangany's' hold on the Indian worker attained notoriety because he had begun to establish himself as shop-keeper, money-lender and general administrator on behalf of the managers of plantations. It came to be generally condemned as a vicious and evil system.<sup>36</sup>

Thus the earliest phase of the economic development of Malaya, marked by a rapid expansion of Chinese tin mining and European (and, to a less extent, Chinese) plantations, was based on the indentured, or compulsory, labour system. Both the historical circumstances attendant on large-scale emigrations from China and India as well as the social and economic institutions in the export economy had begun to establish the characteristic features of a labour policy which would persist in the dual economy. The policy of unrestricted immigration had established the foundation of a cheap labour policy, which in turn was doubly reinforced by inefficient and irresponsible management of labour.

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36 Indian Immigration Department, Annual Report for 1904.

In large measure the subsistence sectors of countries where export industries came to be established remained isolated and the new industries were forced to turn to other labour-surplus areas for an adequate level of labour supply. In addition, immigrant labour was generally preferred to local labour because immigrants as a rule tended to remain at the job longer (2 to 3 years). Employment of local labour would have involved higher rates of labour turnover and therefore higher labour costs as such workers would normally have deserted their jobs during crucial periods in subsistence production such as the planting and harvesting seasons. However, as employers in Malaya discovered, recruitment of labour overseas was liable to lead to abuses at the hands of professional recruiters and to unpleasant conditions of employment for immigrant workers. It was in fact a vicious circle in which high labour costs were followed by low wage rates and extended periods of employment contract. As all the official enquiries that were undertaken during this period indicate,<sup>37</sup> both employers and workers were the unwilling victims/

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37 Straits Settlements Labour Commission Report,

victims of the indenture system and the further growth of the export industries required that a more rational employment relationship be evolved.<sup>38</sup>

contd. 1890 Federated Malay States Labour Commission Report, 1910. Straits Settlements and Federated Malay States Opium Committee Report, 1908.

38 For a similar pattern of evolution in labour management in the Netherlands East Indies see Army

Van Vandenbosch, "Colonial Labour Problems: the Labour Contract with Penal Sanctions," Pacific Affairs, April, 1931.

### Chapter III

#### The Growth of a Free Labour Force

##### A. The Estate Labour Force

Until the last decade of the nineteenth century commercial agriculture in the Malay Peninsula had been essentially on a small scale comprising sugar, tapioca, gambier and pepper cultivation. Chinese cultivators were the dominant factor in the export sector and European capital was conspicuously absent. However, before the end of the century several British coffee planters had migrated from Ceylon where the plant had been attacked by a blight. Although these early coffee planters were the pioneers of the plantation-type economy that was to dominate Malaya during the twentieth century, the crop itself enjoyed only a brief regime in the export economy, to be followed by rubber. Between 1896 and 1899, as the price of coffee began its steady decline, some of the estates began to interplant with rubber.



At the turn of the century the prospects of world demand for rubber appeared unlimited whereas that for coffee were endangered by the large Brazilian output.<sup>1</sup>

The extensive development of the plantation economy in Malaya at this time, emphasised the seriousness of the labour shortage in the country. The weaknesses of the indentured system had been obvious for some time but so long as employers were strongly entrenched in a monopsonistic position the indifferent management of labour resources was not a serious handicap. With the extension of the plantation economy, however, the inefficient handling of labour resources was beginning to push up production costs. As long as vast tracts of the country remained undeveloped and communications were non-existent, or at best primitive and hazardous, small groups of employers, regionally concentrated, and specialising in coconut or sugar cultivation, were able to take full advantage of their monopsonistic position.

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1 F M S Annual Report for 1896.

It is to the rapid expansion of commercial agriculture at the turn of the present century that we must ascribe the gradual evolution of a free labour force in Malaya.<sup>2</sup>

There were four major reasons for this development. Firstly, in order to effect rapid development of the plantations so as to meet high levels of world demand, the producers of the new export crops, such as coffee and rubber, were forced to offer better terms, both in wages and working conditions, to their employees. The early coffee planters in Malaya introduced the 'Kangany' system of recruitment in preference to the indenture system as they had successfully used the former in Ceylon. Under the 'Kangany' system, the planters would send the immigrant labourer of supervisory rank (Kangany) to India with sufficient cash advances so that he would recruit workers for his own plantation.

2 S.S. Labour Commission Report, 1890.

Thus Malayan planters were able to break the monopoly of the ring of professional recruiters in India who were chiefly responsible for the high labour costs and the low level of immigration. Further, these professional recruiters had no direct contacts with the Malayan plantations and were concerned less as to the suitability and capability of the Indian immigrants they recruited for work in plantations. The Kangany, on the other hand, being one of the better-paid workers on the plantations had an interest in the quality of the recruits. In addition, being by law confined to recruit only in and around his native Indian village, the Kangany was constrained to use persuasion rather than force and trickery, as was often the case under the indenture system.<sup>3</sup> It must, however, be emphasised that the Kangany system was only a variant of the indenture system, as, in effect, the debt-bondage relationship between servant and master still remained, although indirectly.

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3 Ibid.

The most significant aspect of this change in the method of recruitment to labour relations in the plantations was that the employers no longer had, nor required, penal sanctions at law to build up the required labour force.

At the same time that a new system of labour recruitment was being widely introduced, the industrial structure of the plantation economy was also changing. The speed with which commercial agriculture was being expanded in Malaya at the turn of the century was chiefly due to the steady influx of foreign, mainly British, capital. The capabilities of the limited liability company to open up vast, new and untried economic enterprises had been well demonstrated in Britain and her other colonial possessions. This was, however, a new phenomenon in the Malayan plantation economy, but one which soon demonstrated its' superiority over the limited financial and technical resources of the old proprietary firms. But while a great number of companies were being incorporated in Britain and continued investing their capital in expanding commercial agriculture in Malaya, the technical and/

and entrepreneurial resources required for the management of the plantations were not forthcoming at the required level. This gap was filled by the development of the managing-agency system. The managing-agents or firms were the old established merchant houses which had built up a fund of local knowledge and expertise in handling Malayan economic and commercial problems.<sup>4</sup> It became common practice for one managing-agent in Malaya to handle the affairs of several United Kingdom companies. The decline of the old proprietary companies and the rise of the managing agency system in Malaya played a significant part in changing employer attitudes to labour problems in the plantations. The managing agent was in a better position to take a more objective view of labour shortages as he had to operate a number of individual plantations. The managing agency system also tended to standardise wages and working conditions as well as other amenities like housing and health. These developments obviated the need for plantation employers to place unnecessary restrictions on their labour force or to bind them through debt- /

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4 G.C. Allen and Audrey G. Donnithorne, *Western Enterprise in Indonesia and Malaya*, London, 1957.

debt-bondage.

Thirdly, the extension of commercial agriculture in the Malay Peninsula opened up an entirely new and wide range of employment opportunities which the immigrant was bound to become aware of sooner or later. The Governments of the Malay States had taken active part in promoting the extension of commercial agriculture, through surveys, drainage and irrigation and, most important of all, the expansion of road and railway communications.<sup>5</sup> Thus the demand for immigrant labour came to be diversified among a variety of new employers spread out throughout the west coast of the Malay Peninsula and a greater variety of wages and working conditions were being offered to workers according to their suitability. Thus immigrant labour could no longer be treated as a homogenous mass of undifferentiated workers, and the older plantations especially in Province Wellesley, that continued to do so were faced with large-scale defections, some preferring long terms in prison or hospitalization for sickness to working under those conditions.

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5 R.O. Winstedt, *Twentieth Century Impressions of British Malaya*, London, 1908.

Those planters who had depended on professional recruiters in India and who had therefore incurred rather heavy expenses in obtaining their labour force had in turn tried to shift these costs to their labour force by contractually binding them to a longer period (3 years instead of 2) on the plantations. Although at law three years was the maximum period for which the immigrant worker could be signed on, in practice it tended to be for longer periods.<sup>6</sup> This was because under the Indian Immigration Ordinance of 1884 the worker was liable to be imprisoned or fined for a large number of breaches of the contract and he was under obligation to serve out the 'lost' days in prison or attending court or even being absent through illness. The fines which were heavy merely extended the worker's period of debt-bondage and consequently it was not surprising that only a minority of the indentured workers were in fact released at the end of the three-year period specified in the contract.

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6 S.S. Labour Commission Report, 1890.

The fourth major factor that was responsible for the decline of the indentured labour system and the growth of a free labour force was the rapid development of transportation both internal and steamer services to sources of labour supply. The great expansion in steamship lines, connecting the Malayan ports of Singapore and Penang to Chinese and Indian ports respectively brought about a general reduction of fares and helped to increase the level of immigration. Thus in addition to indentured and other recruited immigrants a growing number of free immigrants began to arrive at Malayan ports. As these free immigrants were generally able to find better jobs and higher wages in the expanding economy, they helped to widen the horizon of the older immigrants as regards job opportunities outside the declining industries. It is significant that the sugar plantations in Province Wellesley and in Perak had the greatest difficulty in solving their labour problems. Development of road and railway communications along the west coast of Malaya had progressed so rapidly that employers of indentured labour found/



found great difficulty in retaining their labour force despite the heavy penalties that were provided by law against defaulters and deserters.

Table III.1

The Ethnic Composition of the Estate

Labour Force

Federated Malay States, 1911 and 1921.

	Malays		Chinese		Indians	
Year	1911	1921	1911	1921	1911	1921
Numbers	23,158	13,933	40,026	33,135	94,950	186,550
Percentages	14.5	5.8	25.0	14.0	59.4	78.8

Source: Malayan Census of the Population, 1921.

Although economic or market forces were at work promoting a free labour force, it could not have become so widely established in as short a time, as it was in Malaya, without Government participation. Government interference in the labour market had a two-fold motive: to ensure an adequate level of immigrant labour for the expanding economy and to maintain a reasonable standard of health and welfare among the labour force in the/

the country. As early as 1887 the Straits Settlements Government had granted a subsidy to the steamship line that plied from South India. The subsidy enabled the Government to employ its' own inspectors on board these steamers to check on the hygiene and health of the immigrants, while cheaper passages offered by the line provided a stimulus to emigration from South India. The expansion of commercial agriculture created such a great demand for immigrant labour that the Government, under pressure from the planting industry, tried out a number of legislative and institutional arrangements to stimulate immigration between 1903 and 1910. In 1903 Government-sponsored recruiters were despatched to India and this resulted in the planters being able to cut the average cost of recruitment by about 25 per cent and was generally welcomed although the Government at the same time reduced the period of contract to a definite maximum term of 600 days. In 1904 the Government sponsored a system of providing free tickets to South Indian immigrants of a specified number provided they agreed to work in plantations in Malaya.

These were later re-allocated between different employers, including several Government Departments. This 'free ticket' system arose out of an arrangement whereby the Federated Malay States Government had guaranteed the annual purchase of 8,000 tickets from a shipping line at the reduced rate of Rs 11, compared with the ordinary rate of Rs 15.

These innovations, however, proved to be no more than piece-meal attempts to solve the problem of a widespread labour shortage. They created more problems and dissatisfaction among employers generally as these attempts spread the costs and benefits rather unevenly among industries and firms and were not based on any established principles. Furthermore, they failed to solve the original problem of desertions by workers and 'crimping' by employers which left the bulk of the cost of recruiting with the first employer. The major industrial problem during the first decade of the present century that the employers faced was the realisation that the indenture system, despite penal sanctions, could no longer ensure an adequate labour force at a reasonable cost.

Discontent among employers was readily directed towards Government whose expanding economic activities had attracted large numbers of Indian immigrants who had originally been imported by the planters themselves. Out of the discussions that ensued between the plantation employers and the Government was born a scheme whereby the costs of importing immigrant labour would be evenly spread among employers in Malaya according to the number of workers currently engaged. Such a scheme came into existence in 1907 through an Ordinance which set up the Indian Immigration Committee, made up of Government officials of the Labour Department and private employers especially planters. The Committee was empowered to levy an assessment upon all employers of Indian labour including the Government, which was by far the largest contributor. The payments made up the Indian Immigration Fund, which was controlled by the Committee and was used to defray all costs connected with the recruitment of Indian labour.

Although the Government contribution to the Fund annually averaged 40-45% of the total, its' effective contribution to the costs of Indian Immigration were greater because in addition it had subsidised the shipping lines that transported immigrants and had set up immigration depots and quarantine facilities and had established medical and welfare centres to cater to the needs of Indian immigrants. It would therefore be more realistic to assess Government contribution to the direct costs of Indian immigration at about 60-65% of the total. This increased scale of Government participation in importing immigrant labour had a two-fold effect on labour relations in the plantation sector: it reduced the uncertainties and heavy costs of labour recruitment to employers and it brought immigrant labour (at first, only South Indian immigrants) under direct Government supervision. From the beginning of 1908 when the Indian Immigration Fund was set up, all vestiges of bondage among immigrant Indian labour came to be speedily removed. Thus in 1908, one of the conditions under which assistance from the Fund could be expected was that the amount of cash advances to employees prior to immigration was to be restricted to/

to Rs 12. However, in 1909, the recruiting allowance paid to the employer from the Fund was increased to S(M) 4.50 cts per labourer (previously it was \$3.00) and it was obligatory for all labourers to be brought to their place of employment free of all debt, whether to employer or Kangany. This was possible because of the fact that the expenses of recruitment were now entirely met by the Government and the Indian Immigration Fund. The great stimulus that a free labour force can give to immigration was soon officially recognised.<sup>7</sup> Since 1908 increasing Government participation in labour recruitment and the declining burden of such costs on individual employers had rendered the older indentured system less attractive. In 1910 the system of recruiting indentured labourers ceased completely, although it was only subsequently in 1914 was it formally banned.

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7 The rapid increase in the number of Indian immigrants arriving in Malaya at this period was accounted for by "the fact that coolies are now brought on to the estates free of debt acts as a powerful attraction" Indian Immigration Department Annual/

The tabulations that follow show the extent to which the various factors discussed above were responsible for the development of a free labour force in Malaya during the first decade of the present century.

Table III.2

Indentured Immigrant Labour-Arrivals in Malaya

1904	2,654
1905	4,823
1906	3,674
1907	5,499
1908	5,456
1909	4,119
1910	2,523
1911	Nil

Source: Federated Malay States Annual Reports. It will be clear that even before the Government took active steps to discourage the recruitment of labour under various forms of debt-bondage in 1906, the size of indentured labour annually imported into Malaya was relatively small.

This was chiefly due to its' unpopularity both with immigrant labourers and plantation employers, who increasingly began to rely on Kanganey-recruited labour as being cheaper and more reliable. Before 1907 when Government-assisted immigrants began to arrive in large numbers, the bulk of immigrants comprised non-assisted workers, that is both completely independent immigrants as well as those who had been recruited by Kanganies to be employed in specified plantations. But it is significant to observe that after 1909 when Government forbade the employment of labour under any kind of debt, whether to employer or to Kanganey, there was a sudden increase in the relative size of assisted as opposed to non-assisted immigrants. Thus from 1910 onwards the relative strength of assisted immigrants of the total arrivals from India began to show rapid increase.



Table III.3

Indian Immigrants, Assisted and Non-Assisted,  
arriving in Malaya

	Assisted	Non-Assisted	All Indian Arrivals
1907	24,709	30,334	60,542
1908	20,049	29,017	54,522
1909	20,288	25,409	49,817
1910	56,002	25,198	83,723
1911	78,356	30,115	108,471
1912	73,761	33,257	106,928
1913	91,236	27,347	118,583

Source: Federated Malay States Annual Reports. In discussing the growth of a free labour force in Malaya during this period, the distinction between 'assisted' and 'non-assisted' immigrants is likely to lead to some confusion. While it is preferable to conform to the official terminology for the sake of statistical comparability, it must be emphasised that (Government) Assisted immigrants formed the nucleus of the growing free labour force whereas the bulk of the non-assisted immigrants continued under various types of disability as workers.

Thus even after 1911 when indentured immigrant labour ceased to be employed, non-assisted immigrants, the bulk of whom were Mangany-recruited workers, continued to be employed. While the rapid extension of commercial agriculture (especially rubber) was principally responsible for the growth of a free labour force, it also produced a great diversity of employers some of whom being marginal or less efficient producers still relied on various types of unfree labour.

### B. Mining Labour

Throughout the last two decades of the nineteenth century when British administrative control of the Malay States began to be consolidated, Chinese labour had flocked to the tin mining areas. Chinese preference for tin-mining as opposed to plantation agriculture was due largely to the speculative character of the former and the opportunities it afforded to strike it rich. But the rapid expansion in tin output in Malaya (in 1898 it was 54% of the world output) also meant that fluctuations in world prices of tin would have a disproportionately large effect on the economy.

In 1890, the price of tin fell to \$ 24 a pikul<sup>\*</sup> from a price level that remained above \$ 30 pikul throughout the previous decade and the industry entered something of a depression. As the attractiveness of Malayan tin-mining ventures declined, the level of Chinese immigration dropped and Chinese mine owners were faced with serious labour shortages which they could not adequately cope with. At the turn of the century, therefore, although tin prices had begun to recover, Chinese tin miners were faced with a unique situation - a Chinese labour force with a relatively stronger bargaining position. This was due to two factors, the low level of Chinese immigration during the previous decade and the extension of commercial agriculture and Government development projects, which as noted earlier had created a variety of new employment opportunities in Malaya. Under these conditions the old 'Kongsi' system of indentured labour in the mining industry began to give way to the new' tribute system, to be discussed on page 92.

\* 1 pikul = 133.3 lbs.

Table III.4

The Ethnic Composition of the Mining  
Labour Force

Federated Malay States, 1901 and 1914.

Year	Malays		Chinese		Indians	
	1901	1914	1901	1914	1901	1914
Numbers	4,223	1,997	153,784	165,636	777	6,166
Percentages	2.3	2.7	97.3	93.5	0.4	3.8

Source: Federated Malay States Annual Reports.

The second major influence that affected labour relations in the mining industry at this time was the fact that the largely speculative character of mining operations was giving way to more cost-based considerations. By the turn of the century the mining industry had come to realise that new prospecting for tin was not going to reveal any new rich deposits and that the greater portion of the already-worked fields had already yielded the more accessible ores.

Essentially, what the Chinese mine owners faced was nothing short of a technological crisis, as their traditional mode of operations in mining were becoming less productive and more costly, especially in regard to labour resources. With the depletion of the more accessible ores, mining became more and more dependent on machinery driven, at first by steam and later by coal and oil. The vast majority of mine-owners, however, remained heavily dependent on labour and were not willing to risk additional capital in their operations. They were, however, able to adapt the 'tribute' system to their own advantage, thereby obviating the need to make more fundamental changes in their operations by investing more capital. Under the 'tribute' system, the capitalist-advancer who was the mine owner would come to an agreement with a group of workers who agreed to work the mine and sell its' produce to the owner at a price, which was a fixed percentage lower than the prevailing market price. In addition, the mine owner had a claim to a specified percentage (10-20%) of the gross output of the mine, the remainder being shared out by the workers.

The great advantage that such a 'profit-sharing' scheme gave the mine owner was that it cushioned him against the initial uncertainties attendant in 'opening up' a mine whereas he was free, subsequently, if the strike proved sufficiently rich, to alter the terms of agreement with the original labour force or to make new agreements with another batch of tribute system over the Kongsai system of indentured labour proved a great stimulus to the rapid increase in the number of tribute workers in the tin mining industry. Thus in 1903, the distribution of mining workers was as

follows: <sup>8</sup>		
Working under Contract		65,656
Working for Wages		29,015
Working on Tribute		91,666

The third major factor responsible for the breakdown of the indentured labour (Kongsai) system in the tin mining industry of Malaya was the introduction and expansion of Western capital and enterprise.

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<sup>8</sup> F.M.S. Annual Report for 1903, p. 10.

The exhaustion of Cornish and Australian tin fields at the turn of the century led, initially, to greater prospecting in Nigeria but then this proved inadequate to the migration of British mining interests in Malaya. It is significant to observe that while Chinese tin mining interests faced a technological crisis and were facing a cost-induced depression in production, Western mining interests were able to undertake successful mining operations. Western superiority in mining technology is revealed by the fact that it was rapidly extended over the whole industry. The proportions of tin produced by traditional Chinese methods and the new mechanised European methods as follows:-

	Chinese	European
1910	78%	12%
1920	64%	36%
1930	37%	63%

The proportions remained approximately the same after 1930. The major technological break-through in mining low-grade tin deposits came with the introduction in 1912 of bucket dredging.

The highly capitalised and mechanised system of mining operation remained a European innovation that was beyond the resources of Chinese mining interests because the financial resourcefulness of the limited liability company had not been realised by Chinese entrepreneurs. This type of mining expanded rapidly in the Malay States from 20 dredges in 1920 to 33 in 1922 and 107 in 1930. The number of labourers employed on these dredges rose rapidly from 228 in 1913 to 2,844 in 1920 and 12,293 workers in 1930. The effect of these developments on the situation was a drastic reduction in the size of the mining labour force. The mining labour force in 1907 was 229,778 and had dropped by 62 per cent in 1922 to 81,898.

Increasing Government supervision of the mining industry in the Malay States also contributed to the growth of a free Chinese labour force. From 1895 onwards Government legislation introduced a number of regulations designed not only for mining practices but also for the general welfare of Chinese immigrant labour.



Chinese mining practices hitherto had tended to be unscientific and wasteful of land resources and had generally adversely affected neighbouring agricultural land. Although these new mining regulations were intended to protect the interests of agricultural landholders, they had the inevitable result of raising the cost of mining operations generally. In addition, the Federal Mining Enactment of 1899 was introduced to check excessive speculation on mining land which had become a characteristic of Chinese mining operations. Under the pressure of increasing labour costs and greater uncertainties about the extent of the tin deposits, Chinese financiers had found it more lucrative to hold on to several mining leases at the same time without actually working them. Such hoarding of mining land exerted speculative pressures on the industry and was as responsible as the general labour shortage for production stagnating. The mining regulations that came into force between 1895 and 1904 had the effect of increasing the costs of the inefficient and absentee-owners in the industry and encouraging the more efficient operators.

The absentee-financiers who had dominated in the early stages of the growth of the tin mining industry were, owing to these new regulations, faced with serious competitions from a large number of small-operators who worked on a partnership basis. Thus by 1908, it was observed that indentured labour had ceased to be important for the industry.<sup>9</sup>

With the expansion of administration over the Malay States and especially, of the Chinese Protectorate, it was becoming increasingly clear that the problems of Chinese labour in the tin industry had merely been left to accumulate. The first important legislation to improve their condition was the Labourer's Wages Priority Enactment of 1899 which protected the interests of workers. Until then those who had worked on the understanding that they would be paid at a subsequent time, had no hold on the owners or their creditors who had come into possession. As the Chinese mining operations were characterised by a high failure rate due as much to human as to natural causes, before this enactment labourers tended to remain in a state of perpetual indebtedness.

Indebtedness among Chinese labour in the miners arose not only because of the general practice in the mines of providing workers their daily requirements on credit. The latter was generally known as the Truck System and was the principal cause of debt-bondage among Chinese labour even after the practice of importing indentured labour had ceased. The Truck Enactment of 1908 was an attempt to break the control the employers had or could have over mining labour, for it allowed the workers the choice of opting out and at the same time fixed the prices of commodities that could be supplied to workers on credit.

The mainstay of the Truck System had been the sale of opium or chandu (opium prepared in a form ready for smoking)<sup>10</sup> and in 1909 legislation was introduced which forbade the settlement of wage payments through its supply. The decline of the opium-smoking habit among Chinese labour was due as much to social pressure as to Government regulation.

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<sup>10</sup> Wong Lin Ken, *The Malayan Tin Industry to 1914*, University of Arizona Press, 1965.

An Anti-Opium Movement among overseas Chinese had begun to take root as early as 1906, as a result of social and political changes that took place in China. Moreover, in Malaya itself, the growth of independent employers (that is, employers who were not opium dealers as well) meant that non-addicted workers had greater opportunities for employment than addicts. Finally, the abolition of the practice of farming out the task of collecting revenue on opium and other luxuries among Chinese employers by the Government led to the decline of the truck system. In the early phase of the development of tin mining it was common for the largest tin mine owner to be also the revenue farmer as well as the chief opium trader in the area. This practice had caused the control of labour supply under debt-bondage and also the abuses of the truck system.<sup>11</sup>

The Labour Code of 1912 finally succeeded in assembling all these piece-meal legislation and modernising the system of employer-employee relations as it affected all workers in Malaya.

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<sup>11</sup> S.S. And F.M.S. Opium Committee Report, 1908.

The development of a free labour force in Malaya was a rapid process that took only a relatively short time, at the turn of the century. The most important factor responsible for its' growth was the rapid extension of commercial agriculture into the hinterland of Malayan settlements. The rapid expansion of the plantation economy not only affected the rate of growth of Government expenditure but also fundamentally changed the character of the mining industry. Such a process of historical evolution in Malaya, from indentured labour to a free labour force, bears comparison to a parallel development in labour policies in the presently developed countries at the time of industrialisation. It has been shown, in the context of developed countries, that an economic interpretation of the historical shift from 'poor relief' policies to modern welfare programmes must largely be in terms of a response to the rising productivity and increasing shortage of labour in the course of industrialisation.<sup>12</sup>

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12 Gaston V. Rimlinger, "Welfare Policy and Economic Development: A Comparative Historical Perspective" *The Journal of Economic History*, XXVI, 4 (Dec., 1966)

In the Malayan context, however, this historical shift occurred as a result of the rapid expansion of the export sector. The implications of such a pattern of development for the economy and the labour force will be examined in the next chapter.

## Chapter IV

### Export Instability and the Problems of Unrestricted Immigration

It was tin mining that had been the original cause of the 'opening up' of the Malay States, especially on the west coast of the Peninsula. The early British administration of the Federated Malay States had used some of the revenue from tin exports to establish a basic network of railway and road communications in the hinterland of the major ports then serving these States. The rapid extension of rubber cultivation in Malaya since 1905 could not have been realised if these facilities had not been provided on this scale.<sup>1</sup> Commercial agriculture, producing raw materials for the manufacturing industries of the West could not have been established so rapidly but for the intervention of European capital and technical and managerial ability.

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1 G.C. Allen and A.G. Donathorne, *Western Enterprise in Indonesia and Malaya*, London, 1957.

Until the rapid extension of rubber plantations in Malaya was brought about by the migration of British capital and enterprise on a large scale, the tin industry had remained largely in Chinese hands.<sup>2</sup> But the expansion of the rubber industry encouraged investors in Britain who had hitherto concentrated their attention on Cornish tin mining to shift their interest to Malayan mines. Until British capital entered the Malayan tin mining industry on a significant scale, after about 1901, the conditions of production were very labour-intensive and, due to the peculiarities of the Chinese credit system, productivity in the mines was liable to fluctuate.<sup>3</sup> The major weakness of Chinese mining enterprises was their shortage of capital, both in the form of plant and machinery (fixed capital) and in working capital.

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2 Sir Lewis Darnley, Report upon the Mining Industry of Malaya, Kuala Lumpur, 1939, pp. 61-65.

3 Wong Lin Ken, The Malayan Tin Industry to 1914, Tucson, Ariz; 1965, p. 195.



The latter was particularly a handicap because it necessitated the continuation of the unpopular truck system and the uncertain and infrequent system of wage-payment. We have seen earlier that Chinese mining entrepreneurs had tried various restrictive methods of controlling labour such as the indenture system and the illegal 'secret society' organisation in order to keep a labour force of the required size and also to keep down labour costs to the minimum. Such primitive methods of organising the labour force were becoming increasingly ineffective in the course of Malaya's economic expansion.<sup>4</sup> As the system of road and rail transport became more extensive and the efficiency of the new administration in preserving law and order in the remoter areas increased, the Chinese mine operators found it more difficult to hold on to their labour force.<sup>5</sup>

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4 Ibid; p. 208.

5 W.L. Blythe, "Historical Sketch of Chinese Labour in Malaya," *Journal of the Malayan Branch of the Royal Asiatic Society*, Vol. XX, Part 1, June 1947, pp 64-70.

The choice before Chinese tin mine operators was whether to continue with their traditional production methods involving high labour costs or to adopt labour saving machinery that was already used in European-owned mines.

In addition to the prohibitive level of labour costs involved in traditional Chinese methods, the depletion of the more accessible and easily worked deposits of tin at the turn of the century forced upon the Malayan tin mining industry a rapid change-over from manual to mechanised methods of production. This process really began at the turn of the century but its progress was most rapid during the second decade, as shown in Table IV.1. Thus within a short span of 10 years, during 1920-30, the relative positions of traditional and mechanised methods of production had been reversed. In 1930 only 37 per cent of Malayan tin production was the result of traditional Chinese production methods whereas in 1920 it still accounted for 64 per cent of Malayan output. The outstanding innovation in Malayan tin mining was of course bucket-dredging which was only available to the highly capitalised European firms.

Table IV.1

Traditional Chinese and Mechanised  
European Methods of Production of Tin  
in Malaya, 1910-30.

Tin Production (percentages)

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Year	Traditional methods	Mechanised methods	Total
1910	78	12	100
1920	64	36	100
1930	37	63	100

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Source: Federated Malay States, Annual Reports,  
1935-40.

Bucket dredging of tin enabled large areas of thinly scattered deposits to be economically recovered without the use of a large labour force.<sup>6</sup>

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6 Federated Malay States: Report of the Commission  
Appointed to Enquire into Various Matters Affecting  
the Tin Mining Industry, Kuala Lumpur, 1919.

The dredge was made up of a pontoon or floating surface which carried a power plant to work the chain of buckets attached. The earth around would be scooped by the buckets and dumped into a revolving screen and later into boxes where the material was washed and the tin-ore recovered. The first bucket-dredge was introduced in Perak in 1912 and by 1920 there were 20 dredges in operation in the Federated Malay States. By 1930 there were 107 bucket dredges being used in these States, all being used by European-owned mines.

In the course of the decade 1920-30 the mining labour force underwent a significant structural change. Hitherto Chinese entrepreneurs and tin mine operators had managed to dominate the industry largely because of social and institutional arrangements which 'tied' the potential mining labour (entirely Chinese) to the traditional Chinese organisations.<sup>7</sup> But the introduction of modern machinery not only reduced the heavy dependence on labour for carrying out mining operations but also increased the possibility of substituting other ethnic groups for Chinese workers.

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7 Wong Lin Ken, op. cit., p. 204.

The European-owned tin mines resorted to Indian labour especially in tasks such as operating and minding steam or oil powered machines, and in operating rail and other wagons and trucks for transporting tin ore. The traditional Indian dislike of actual mining work, such as in deep pits, was thus obviated and at the same time mechanisation had reduced the mine's dependence on a large Chinese labour force. These changes in the mining labour force are shown in Table IV.2. It will be seen that the Indian labour force employed in the mining industry was only 501 in 1901 whereas by 1914 it had increased slightly more than ten-fold to 5,824 workers.

A second important development in the mining labour force is that since the turn of the century it had generally declined; and in the course of the 1920's and 30's when large surplus stocks brought world prices down, the labour force had shrunk to about one third of its' size in 1905-06.

Table IV.2

The Ethnic Composition of the Mining  
Labour Force

Ethnic Group	Mining Labour		
	1901	1911	1914
Chinese	153,784	189,010	163,636
Indians	501	4,625	5,824
Malays	4,223	2,577	1,997
Others	276	214	342
Total	158,637	196,427	171,799

Source: Federated Malay States, Censuses 1901, 1911  
and 1914.

The gradual running down of its' labour force by the Chinese mining enterprises had begun at this time and was a consequence of some closures especially in the more backward sectors and more significantly by the use of labour-displacing power equipment and machinery. Although this process of change in the industry and the labour force had begun to operate since the turn of the century with the growing participation of Western capital; and production methods, the

changes took place at the end of the First World War.

Table IV.3

The Labour Force and Output in Tin Mines,  
Federated Malay States, 1906-1931.

Year	Production (thousand tons)	Workers (thousands)
1906	48.6	212
1908	50.8	192
1910	43.8	170
1912	48.4	211
1914	49.0	171
1916	45.0	139
1918	37.9	144
1920	35.0	89
1931	36.3	77

Source: Federated Malay States Annual Reports and  
Censuses of Population.

The first inter-war period depression occurred during  
1920-22 and the Malayan tin industry underwent a very/

very drastic measure of cost-rationalisation in which the smaller production units still using traditional methods were eliminated. Table IV.3 shows that the gradual diminution of the mining labour force from 1906 was suddenly speeded up at the end of the 1914-18 war.

The tin industry in Malaya has the distinction of having pioneered raw material production for export and also of trying to operate the first international agreement to stabilise primary product prices. The drop in tin prices in the trade depression of 1920-22 forced the Malayan and East Indies producers to agree to a buffer stock scheme which by purchasing surplus stocks from world markets raise the price of tin to pre-depression levels. This scheme, called the Bandoeng Pool, was put into operation in 1921 and by 1923, when world demand had revived once again, had withdrawn 19,000 tons of tin from world markets. Thus the first Malayan attempt at stabilising export prices through international commodity control agreement was a success. But this success was not only short-lived but also led to a considerable expansion of production which, as subsequent events were to show, were based on false expectations of world demand.



The revival of tin prices in the 1920's was confined to a three year period 1923-26 only. Between 1926 and 1931 the surplus of tin production over consumption began to rise again and at the latter year stood at 41,000 tons. In Malaya alone tin output had risen from 39,000 tons in 1923 to 69,000 tons in 1929, an increase to over 75 per cent in six years. The drop in the export prices of tin was sharp and sudden and the onset of the Great Depression rendered prospects of a revival in prices remote. An International Tin Agreement, signed in 1931, attempted to prevent further reductions in price by assigning export quotas to individual countries. This Agreement was renewed three times subsequently and some form of restriction on the export of tin was in operation in all the signatory countries for the next 15 years, until 1946.

The two decades preceding the Second World War were a critical period for the Malayan tin industry and were primarily responsible for changing the industrial structure of the demand for labour in Malaya. Many of the Chinese workers displaced from the mining industry drifted into rubber plantations, market gardening and into retail trade or commerce.

Further prospects of employment expansion in the tin mines were non-existent not only because of the rapid rate of mechanisation but also because of the international agreements restricting output in Malaya. The run down in the mining labour force, however, did not immediately present problems of unemployment as the rubber industry was able to absorb fairly large numbers of workers throughout the 1920's. But this was chiefly due to the operation of a restriction scheme undertaken by producers in British territories. But the short term success of this restriction was to lead to far graver consequences for the growth of the industry, as we shall presently show.

Unlike the Malayan tin industry which was pioneered by Chinese merchants and entrepreneurs, the rubber industry was chiefly the outcome of Western capital and enterprise. Commercial agriculture on this scale had no precedents in any part of Southeast Asia at this time. Before the advent of rubber plantation agriculture was mainly practiced by a small group of proprietary firms and companies whose financial resources were adequate for the cultivation of bush crops like tapioca, sugar and coffee.

But rubber cultivation involved greater economies of scale not only in the cultivation and maintenance of estates but also in the processing of latex and subsequently in grading, packing and transportation. It is therefore not surprising that the advent of the joint stock enterprise in Malaya coincides with the growth of rubber cultivation. By the end of the first decade of the century the joint stock companies had superseded the individual proprietorships, many of the latter being sold outright or merged with the financially stronger companies that were being floated in London. Although during the Depression many, like Bauer, appear to have been convinced that rubber was pre-eminently a smallholder's crop and that large plantations operated by joint stock companies were unwieldy and rigid structures which could not withstand the pressures of free competition, it must be conceded that the rapid popularisation of natural rubber in industrial countries could not have been realised without the large sustained output from these plantations. If rubber cultivation had been left entirely to the interest of the peasant farmer, it is likely that Malayan rubber might have faced the same fate as Brazilian wild rubber, that is, of being priced out of the market.

Table IV.4

Growth of Rubber Cultivation by Estates  
in Malaya, 1906-31.

Year	No. of Estates	Acreage under Rubber	Labour Force
1906	254	99,230	39,274
1908	417	241,138	78,366
1910	632	362,853	179,030
1911	964	542,877	227,985
1921	1,329	1,140,380	367,856
1931	1,388	1,498,740	416,862

Source: Federated Malay States, Annual Reports and  
Censuses of Population.

As can be seen from Table IV.4, the acreage under rubber showed the most rapid rate of growth during the latter half of the first decade of this century. The acreage brought under rubber cultivation by mainly European-owned companies increased about four fold in the short span of five years between 1906 and 1911.

The number of estates engaged in the production of rubber also showed a similar increase during this brief period. Although the labour force in the estates appear to have increased more than proportionately to the cultivated area it must be emphasised that these figures include both the permanent as well as temporary labour engaged in plantation agriculture. In addition, there was considerable movement of this population, not only between different estates but also from plantation agriculture to other industries and vice versa. In view of the labour shortage experienced by many new enterprises it is likely that some of the newly established plantations had begun to recruit their labour force some time before actual production had been started. Some basis for these developments is offered by a comparison of the increase in the labour force with that of the cultivated acreage for the following decade, 1911-1921. It will be observed that during this period the labour force increased by just over 50 per cent while the acreage under cultivation more than doubled itself.

There was less pressure upon employers to 'hoard' labour when the Indian Immigration Fund, established 1907, went into full operation and eased the labour market situation. Technological developments in tin mining were also a contributory factor in this direction. The rubber industry which had relied exclusively on Indian immigrant labour was beginning to employ significant numbers of Chinese workers. While the Indian component of the estate population had throughout the history of rubber cultivation in Malaya remained as the largest, it has shown a steady relative decline since the tin industry began to run down its' labour force.

Table IV.5

Ethnic Composition of the Estate  
Labour Force, 1921-47.

Ethnic Group	1921	1931	1947
		(thousands)	
Indians	258.3	304.1	241.3
Chinese	70.5	85.9	144.4
Malays	37.7	28.4	52.7
Others	5.2	5.3	3.7
Total	371.7	423.7	412.1

Source: Malayan Census of the Population, 1947.

Among primary commodities involved in international trade rubber provided an extreme case of export price instability.<sup>8</sup> Until 1920, however, the history of rubber had been one of expanding markets, prices of at least 2s per lb and increasing acreage in Malaya under rubber. Both the organisation and techniques of production, marketing and distribution were both extravagantly and inefficiently run. By 1920, however, world production had outstripped consumption and the depression of 1920-22 pushed rubber prices down further through the accumulated surplus stocks in the market. In June 1922, the price fell to a little over 6d per lb. Average prices in London for the years 1921 and 1922 were just above 9d per lb - a price level that did not meet the average costs of production of many estates in Malaya.

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8 Lord Keynes calculated in 1938 that "there has only been one year in the last ten in which the high price of rubber exceeded the low by less than 70 per cent." "Govt. Storage of Foodstuffs and Raw Materials," *Economic Journal*, Sept., 1938.

Due to representations from rubber producers in Malaya and Ceylon, the British Government attempted to promote international control of rubber production but abandoned it after Dutch refusal to participate. An attempt at voluntary restriction among British territories (in effect, Malaya and Ceylon) in 1920-21 had failed because, it was felt, the large number of non-European smallholders (by definition, owners of rubber plots of less than 100 acres each) had failed to co-operate with the estates in observing the 'tapping holiday' periods.

The Stevenson Scheme of Rubber Restriction was a unilateral attempt on the part of the British Government to control rubber production in British territories so as to improve the world market situation in the long run.<sup>9</sup> Ordinance to enforce rubber restriction were passed in Ceylon and Malaya in October 1922 and remained in force for 6 years until November, 1928. The logic of the Stevenson Scheme of rubber restriction was obviously based on the fact that in 1922 world production of natural rubber was distributed as follows: British territories 70%; Netherlands East Indies 25.5% and/

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9 J.W.F. Rowe, Special Memorandum No. 34, London and



and Others (mainly Thailand and French Indo-China), 4.5%. Several of the estates in Dutch territory were British and had agreed to co-operate voluntarily and therefore it was estimated that such a control on the production of rubber would at least affect 75% of world output. The object of the Stevenson Scheme was to stabilise world prices at around 1s 3d per lb; this figure was later (1st May, 1926) revised upwards to 1s 9d in order to accomodate a general rise in production costs.

By the early 1920's primary producers in general were trying to adopt as a universal remedy war-time control schemes of short duration which had proved successful as demand picked up at the end of hostilities.

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contd. Cambridge Economic Service (1931).

Primary producing countries were ill-advised to adopt such techniques of price control in the international commodity markets where, as in the case of rubber, the pressure on prices was not essentially a result of a temporary short fall in demand but of a growing excess of supply as the great rubber planting boom of 1909-10 began to come into production.<sup>10</sup> But the short-term success of the Stevenson Scheme blinded Malayan producers to the long-term dangers of such unilateral restriction of production. By the end of 1925, within the short span of three years, supporters of the Scheme could claim that they had raised the price from 8d to 4s per lb. By the end of 1927, however, under more normal conditions of world demand, the long-term effects of the Stevenson Scheme were beginning to dawn on Malayan producers, especially in the form of the declining position of Malaya as a world rubber producer.

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10 J.W.F. Rowe, *Primary Commodities in International Trade*, London, 1965.

The share of Malaya and Ceylon in total world output had shrunk from 70% in 1922 to 52% while the Netherlands East Indies had increased their share from 25% to over 40% during the period of the Stevenson Scheme.<sup>11</sup> By the end of 1926, the prospects for the Stevenson Scheme's long-term success appeared bleak indeed and by the end of 1928, the price of rubber had declined to 10s per lb, well below what the Scheme considered a fair price for efficient producers. In 1928, the Under-Secretary of State for the Colonies, after an investigation of the rubber industry in British territories and also in the Dutch, recommended the abolition of restriction.

The case for the discontinuation of the unilateral rubber restriction in British territories was expressed by Mr. Ormsby Gore<sup>12</sup> to be the unreality of trying to maintain a world price of 1s 9d or even 1s 3d merely for the benefit of inefficient producers who could not operate below such price levels.

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11 P.T. Bauer, *The Rubber Industry*, London, 1948; and especially "The Working of Rubber Regulation," *Economic Journal*, Sept., 1946.

12 Then Under-Secretary of State for the Colonies, in

Further, the Stevenson Scheme had not taken fully into account the size of the potential output from small-holdings, especially from the Dutch territories. The fact that the output from Dutch territories had increased by 145 per cent during the period of restriction was chiefly due to the expansion in smallholder's production. The precise extent of native rubber cultivation was unknown even to the Dutch authorities; but some idea of its' growing importance during this period can be gleaned from the fact that the exports of native rubber were 32% of the total from the Indies in 1923, and between 39% and 45% in 1925 to 1929.<sup>13</sup> The costly and often extravagant organisation of Malayan rubber companies and the ignorance of the London-based board of directors on matters of production in Malaya were found to be some of the principal reasons why they frequently looked "to Government for assistance in fixing prices on the basis of what the least efficient estates consider a reasonable level."

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contd. Report on a Visit to Malaya, Java and Ceylon  
during the Year 1928. Cmd. 3235.

13 Cecil Rothe, "Restriction of Rubber Production in

Rather belatedly in 1928, Malayan rubber producers were once again left to fend for themselves on the free world market. In the course of the 1920's, however, both the Malayan Government and the rubber industry had increasingly turned to research to discover ways of reducing costs and increasing yields per acre. A Rubber Research Institute was finally opened in November 1926 but it did not become fully operative until 1928 because of indecision among planters about its proper role. It was modelled on a similar Institute which had commenced work in 1913 in the Netherlands Indies and had been chiefly responsible for the lower costs of rubber production observed among Estates there.

One major outcome of the discontinuation of rubber restriction in Malaya was the fact that it was once again possible to assess the relative strengths of peasant-operated smallholdings and of larger plantations in free market conditions as efficient producers of rubber. In 1929, the first restriction-free year after the Stevenson Scheme, Malayan smallholders'

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contd. Netherlands-India," Pacific Affairs, March 1935, pp. 67-8.

smallholders' output reached 200,000 tons or double the official estimate of smallholders' capacity: Estate production of rubber in Malaya for that year was 246,000 tons. It was clear that the division of the Restricted Production quota between the smallholders and the Estates in the ratio of  $\frac{1}{3}$  to  $\frac{2}{3}$  rds, that had obtained throughout the Stevenson Scheme, had been quite unfair to the smallholders. Moreover during the 6-year period of restricted production, the Government had imposed a ban on alienation of land for rubber cultivation. Although the ban was universal, smallholders were more effectively penalised as the larger estates generally had considerable reserve lands on which they could undertake new planting of high-yielding new strains that were being developed. Finally the period during which the Stevenson Scheme had been in operation had shown clearly that, despite lack of official encouragement, and sometimes in the face of active discouragement, smallholder rubber production was competitive enough to withstand export price fluctuations more easily than Estate rubber.

Although rubber production in Malaya had been introduced largely due to the initiative of joint stock companies floated in London, it was clear in 1929, scarcely a decade or so later, that rubber was eminently profitable as a small-holder or peasant crop.<sup>14</sup>

Indigenous subsistence agriculture had been ignored in Malaya during the period of the rubber boom and by the 1920's it was evident that considerable numbers of indigenous agriculturists had gone into rubber cultivation. The economic advantages presented to the peasant cultivator by this changeover were considerable as the rubber-rice price ratios continued to move upwards. In 1932, as Bauer's rather conservative estimate shows, the rubber small-holder on average could obtain about 690 lb (86 gantangs) of cleaned rice with the proceeds of the yield of an acre of rubber against about 640 lb (80 gantangs) of rice when grown direct.<sup>15</sup>

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14 See Bauer, *The Rubber Industry*; and also Rowe, *op. cit.*

15 According to a spokesman in the F.M.S. Federal Council in 1933, the advantage was even greater -- rarely less than 100 lb of rice per acre.

But more significant was the fact that padi (rice) land was more expensive and cost more to maintain whereas land for rubber cultivation was, at this time available at very low cost. Moreover, the various items of expenditure required at different stages of rice cultivation were so many causes of the indebtedness of the small-holder. The rubber-growing smallholder, on the other hand, did not require seasonal credit and only very rarely medium-term credit and was a more active participant in the monetised sector of the economy as he regularly sold his produce for cash.

These trends in indigenous agriculture, however, did not cause any official concern until the post-war depression of 1921-22 when a rice shortage coincided with the rubber slump, causing an adverse movement in the terms of trade of Malaya. To insure the country against an actual famine, the Government were forced to establish price control of rice and to institute rationing. The Government purchases of rice overseas to be resold in the country at subsidised prices cost about \$ 42 million (Malayan), over a third of the surplus balance from previous years which had been carefully accumulated.



Increasing Government concern that Malayan agriculturists should produce far more of the local rice requirements produced a flurry of official activity to raise the acreage under rice. As this policy came to be framed at a time when rubber restriction was being introduced for the first time into the country it produced the unfortunate effect of the Government discriminating against the smallholder. Thus, from the early 1920's until the outbreak of the 1939-45 War and through two rubber restriction schemes, official policy continued to discourage the extension of smallholder rubber cultivation. From 1922-28, throughout the period of the Stevenson Scheme, and from 1930-34, the Government had imposed a ban on alienation of land for rubber cultivation. In 1934 the International Rubber Agreement while still prohibiting new planting allowed a restricted amount of re-planting (or replacing ageing trees). The maximum allowance for replanting in any year for 1934-38 was limited to 10 per cent of existing acreage under rubber; this was further reduced to 5 per cent for the years 1939-40. Such restrictive provisions in effect proved too strong to allow the smallholder to undertake extension of rubber cultivation even to a limited extent.

During the two decades of violent fluctuations in rubber prices in world markets and through the Great Depression, the Malayan rubber plantations had maintained their position largely at the expense of the smallholder.<sup>16</sup>

The most interesting feature of the Depression years in Malaya as far as the wage-labour force was concerned was the reversal of the great influx of immigrant labour that had been experienced in the previous decades. Until 1929 completely free immigration of labour had been allowed in Malaya. The Immigration Restriction Ordinance which came into force in 1930 imposed a quota on immigrant labour from China, the quota being varied from year to year according to representations from employers in Malaya. These measures were found necessary as depressed world markets had produced widespread unemployment among tin miners in Malaya. Further, in 1931, the International Tin Committee had imposed a compulsory restriction of output in all the major tin-producing countries, including Malaya.

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<sup>16</sup> see Bauer, op cit., pp. 96-97.

Direct immigration from China into the Malay States was banned altogether and even entry through the Straits Settlements Colony was made more difficult by the Aliens Ordinance (S.S.) of 1933. The following figures provide an idea of the extent to which immigration was curtailed.

Table IV.6

## Quotas Issued for Adult Male

Immigrants from China, 1931-41

Year	Month	Quota
1931	Jan.-Sept	5,238 per month
do.	Oct.-Dec.	2,500 " "
1932	Jan.-July	2,500 " "
do.	Aug.-Dec.	1,000 " "
1933	Jan.-Mar.	1,000 " "
do.	Apr.-Sept.	total ban
do.	Oct.-Dec.	1,000 " "
1934	Jan.-Apr.	1,000 " "
do.	May-June	2,000 " "
do.	July	3,000 " "
do.	Aug.-Dec.	4,000 " "
1935-1936	(24 months)	4,000 " "
1937	Jan.	4,000 " "
do.	Feb.-Dec.	6,000 " "
1938	Jan.-Mar.	3,000 " "
do.	Apr.-Dec.	500 " "
1939-41		500 " "

Source: Federated Malay States and Straits Settlements Annual Reports.

The Aliens Ordinance that came into force in April 1933, prohibited all male adults immigrating from China, although females and children were allowed free entry. However, as economic conditions showed signs of revival towards the latter part of 1933, this policy was revised and 1,000 adult male immigrants were allowed in during the last quarter. The downturn in business activity in 1938 caused a fall in prices of Malayan exports and consequently the immigration quota fell to 3,000 per month for Jan. - March and only 500 per month for the last three quarters of 1938. The immigration quota for Chinese adult males remained at 500 per month throughout the rest of this period 1939-1941, and was not revised when the country came under Japanese occupation during the War.

The major result of the depression in Indian immigrant labour was that assisted immigration was suspended in August 1930. But in 1931 some 20,000 unassisted immigrants arrived from India. Since assisted immigration was suspended in August 1930, the Indian Immigration Fund had been used to help repatriate unemployed Indians who wished to return to India.

Thus during 1931 some 56,000 labourers of Indian origin were repatriated; this being in addition to 45,000 who left paying their own passages. As will be seen from the table below, the depression of 1929-33 almost halved Indian estate employment. The number of

Table IV.7

Number of Labourers Employed at  
the end of year on Estates

S.S. and F.M.S. 1929-33

(thousands)

<u>Year</u>	<u>Indians</u>	<u>Others</u>	<u>Total</u>
1929	205	53	258
1930	154	51	205
1931	121	43	164
1932	104	41	145
1933	111	49	160

Source: S.S. and F.M.S. Annual Reports, 1935-39.

Indian workers repatriated during 1932 was also considerable some 45,000 adults and 11,000 minors.

In fact the demand for free repatriation among Indian rubber workers was so far in excess of available shipping facilities that the Controller of Labour in Malaya admitted to not having given it the widest publicity among workers.<sup>17</sup> By the middle of 1933 rubber production had risen sufficiently to absorb all available workers at considerably higher wages than obtained during the previous year (at around 30 cents), and repatriation came to an end.

Considerable substitution of Chinese labour for Indian labour had taken place in rubber plantations during this period because it was found that Chinese workers were willing to take on the job for a nominal wage of 5 cents per day, provided food and accommodation was provided by the employer. Although some employers felt that they could make this a permanent pattern of employment, the majority were of the view that this could only be a temporary phenomenon. In fact, as the worst aspects of the Depression passed Chinese workers began to demand a share in the higher prices and left in large numbers to be share-tappers or contract workers.

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<sup>17</sup> see Bauer, op. cit., p. 231.

The unique situation of Chinese workers accepting lower wages than others that prevailed for a short period during the Depression is chiefly attributable to the fact that their bargaining position, compared to Indian workers had declined. The bargaining strength of Indian workers was enhanced by their right to be repatriated, a provision under the auspices of the Indian Immigration Fund which did not cover Chinese workers. In addition the mainstay of Chinese workers' higher earnings, the tin mining industry, was in a far worse plight than the rubber industry. Considerable numbers of Indian workers were also employed in various Government Departments and Public Utilities, but as Table IV.8 shows, the depression in Malaya caused far greater fluctuations in the level of employment in private industry than in Government service.

Table IV.8

Numbers Employed in Private  
Industry and in Government Departments, 1929-38

(thousands)

YEAR	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Private Industry	418	403	311	270	292	361	349	386	480	539
Govt. Departments.	48	66	57	47	45	47	54	59	63	71

Source FMS and SS Annual Reports.

The cumulative effect of the two decades of export instability and especially that of the Great Depression on the labour situation in Malaya was to have considerable effects on the demographic pattern in Malaya. Malaya could no longer be regarded as providing unlimited employment opportunities to would-be immigrants from India and China. Further, the Malayan Government was far more aware of the dangers of over-expansion in terms of labour and land resources in specialised industries oriented to export production and of the/



the heavy burden of alleviating unemployment and food shortages arising from such dependence. As Table IV.8 shows, between 1929 and 1932, the cumulative effects of the fall in world demand for Malayan exports was such that the total wage-labour force comprising workers in Government and in private industry was reduced by 33 per cent. In fact the depression was far more pervasive in Malaya than in the major industrialised countries with large sectors of the economy specialising in production for the domestic market. The export economy had become so dominant in the wage employment sector (and to a less extent in the peasant sector) that it has been suggested that the total effect was far worse than revealed by export and employment statistics. Indeed the fall in employment taken in conjunction with that of wage rates would have indicated an income shrinkage of about 80 per cent between 1929 and 1932.<sup>18</sup>

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18 Bauer, "Some Aspects of the Malayan Rubber Slump," *Economica*, Nov., 1944.

The two decades preceding the Second World War are in fact of special significance to any study of labour problems in Malaya because they form the transitional period between full-fledged economic growth based on migrant labour supplies and the present phase of promoting economic development on a sufficient scale to provide employment for a rapidly increasing domiciled population.

## Chapter V

### Labour in the Smallholder Economy

Before the advent of plantation agriculture, especially rubber, at the turn of the century, padi (unhusked rice) cultivation had been the predominant agricultural activity in the Malayan economy. In spite of the influx of considerable numbers of Chinese immigrants to work in tin mines, the economy of the Malay States in the Peninsula continued to be largely self-sufficient, at least in so far as food was concerned. Malay agricultural workers had not been attracted to tin mining not only because the mines were managed by foreigners but also because mining involved a way of life which represented, on balance, a lower standard of life.<sup>1</sup>

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1 Even in the advanced, fully monetised, economies recent research is beginning to cast doubt on the effectiveness of the market mechanism alone (through wage structures) to control the labour supply function. See the interesting study by Hilde Behrend, "Normative Factors in the Supply of Labour,"

The Malay peasantry was aware of the hardships experienced by the indentured 'coolie' labour in the mines and preferred their traditional agricultural pursuits to the harsh, regimented, new occupations in the export sector. Moreover, before the advent of rubber cultivation in plantations, cultivable land was easily accessible to the peasantry and there was no population pressure. Their preference for the traditional occupations may have been induced also by the relatively greater independence enjoyed by the peasantry after the extension of British rule to the Malay States.<sup>2</sup> Although engaged in subsistence production, the welfare of the peasantry had, under their Malay rulers, fluctuated with the arbitrary changes in the level of taxation. Taxation of peasant production had risen to high levels not only for the maintenance of the rajahs or chiefs and their extensive retinues, but also for feeding large numbers of fighting men required by the Malay States during the disturbed political conditions that preceded the establishment of British rule.

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contd. The Manchester School of Economic and Social Studies, Vol. XXIII, Jan, 1955.

2 See H. Kasper, "Assets and the Supply of Labour,"

Continuous dynastic wars in the Malay States had not only depleted considerably the available man power for agricultural production but they had also required greater contributions of agricultural produce from the peasantry. In addition, the extension of British rule enabled the peasantry to free themselves from the widespread system of debt-bondage whereby the Malay aristocracy had maintained itself ostentatiously. The elimination of debt-slavery was one of the earliest administrative reforms of the British that had the immediate effect of improving the material well-being of the peasantry and enhanced their social status as independent or self-employed workers.<sup>3</sup> Thus the introduction of British rule in the Malay States not only brought into existence export industries manned by immigrant labour but also more stable political conditions under which the peasantry may be said to have improved its' welfare not only absolutely but, more important, in a relative sense, especially as compared to the conditions of immigrant workers.

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contd. Southern Economic Journal, Oct., 1966.

3 Gullick, The Indigenous Political Systems of Western Malaya.

Some British administrators like Sir Frank Swettenham had realised even as early as 1890 that padi cultivation and its' extension was going to be crucial to the development of the Malayan economy. The first administrative regulation introduced by the British was to discourage the wasteful system of dry padi cultivation that was widespread in some areas of the Peninsula.<sup>4</sup> Dry padi cultivation was practised mainly on the west coast states where there was a scarcity of well-drained and extensive riverine plains. As this system involved the clearing of hill tops and slopes of all vegetation prior to sowing, it led to considerable soil erosion and low yields. On both counts, such a method of rice growing could be successful only on the basis of shifting agriculture.<sup>5</sup> However, the main rice producing areas in the Peninsula were located in the north-eastern coastal plains and in the narrow strip of coast that skirts the hills in the north-west.

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4 H.W. Jack, *Rice in Malaya*, Kuala Lumpur, 1923.

5 "Padi Planting Methods in Malaya," *Malayan Agricultural Journal*, Vol. 27, 1939.

Both these areas had been under Siamese suzerainty long before British influence had reached the western regions of the Peninsula. A more intensive and land-conserving system known as wet padi cultivation was in operation in these areas which comprise the oldest cultivated portions of the Malay Peninsula. Thus the early Administration in British Malaya found that their biggest contribution to the peasant economy would be to abolish dry padi cultivation and provide alternative well-drained land for wet padi in the lowlands of the west coast states, which continued to absorb almost the whole of the annual increases in the population.

Although the Malay peasantry had improved their economic condition after the introduction of British rule, the Government was increasingly aware of the fact that the economy was becoming more dependent on foreign supplies of food, especially to feed the considerable increase in the immigrant labour force and their dependents. The Malay subsistence sector had not responded except in a marginal way to the vastly enlarged new market for its' produce.

Traditionally, the Malay peasantry had had no incentive to produce for the market because any surplus above their bare subsistence requirements were liable to be expropriated by their chiefs and rulers. Thus the production of subsistence crops on a scale larger than was required by an average size family unit was unknown; nor was it possible to undertake such extensive cultivation with the given manpower resources as provided by the family unit. As the earliest British administrators realised, a complex system of water control through drainage and irrigation canals, was the most urgent pre-requisite for a rapid extension of padi cultivation in the swampy lowlands of Malaya. But such an improvement of their physical environment was beyond the financial and technological resources of the peasantry. As the Krian Scheme, opened by the Government in Northern Perak at the turn of the present century, was to indicate, if such developments were sponsored by the Government the peasantry were quick to take advantage of the new opportunities offered.



And finally, the immigrants who had arrived to work in the new industries of Malaya had their food and other requirements supplied by traders who had themselves immigrated. Thus the traders who had established their businesses in the towns of Malaya were more closely dependent on the subsistence products of neighbouring countries than on that of Malaya. Thus the demand for the subsistence produce of the Malay peasantry was no more than residual or marginal. If there was a reduction in the volume of imports because of crop failures or export restrictions in foreign countries, then the demand for Malayan production would go up. But the Malay peasant could not be assured of a steady volume of demand nor of a fixed price level. These were the major reasons why the Malay peasant economy did not experience a structural change when the immigrant population and the industrial labour force added a new dimension to the Malayan economy.

The most important factor of production in a peasant economy is land; and before the extension of British rule in Malaya the land worked by the peasant was held by the rajahs or chiefs of the respective/

respective districts in which they were resident. In the particular circumstances prevailing <sup>in</sup> Malaya, where there was no pressure of population, land was freely available and their choice of cultivable land was restricted only by the relative distance from their homes and the inherent dangers of moving too far out of the protective wing of their respective chiefs. The concept of land ownership was therefore alien to the peasant who was accustomed only to the communal rights to the cultivation and harvesting of subsistence produce. Thus although land represented the most important factor of production in the peasant economy, prior to the introduction of the exchange or market economy into the Peninsula, it was of little economic significance to the peasantry. With the growing importance of tin mining in the western states, traditionally peasant-operated land began to have competitive uses, and therefore considerable economic value. But the peasantry could not participate in this process of economic change as all rentier incomes derived from mining land were wholly absorbed by the chiefs and their small retinue of unproductive kinsmen.

Thus the two most important features of the peasant economy in Malaya before British rule was introduced were that cultivable land was relatively plentiful and that its market value to the peasant was negligible.

All this was drastically changed after British rule was established in these States. The legal principles of private property and ownership and the owners' rights to free alienation of property came to be superimposed upon the peasant economy. However, the complexities of the English law of real property were bypassed as the Malayan administrators decided to adopt the Torrens system of land registration from South Australia in the 1880's. This was based on two principles: all rights in and over land rest in the Ruler of the State until granted in his name to the landholder; and that titles so granted are entered in registers maintained in Government Land Offices and any legal dealings in registered land were only possible if the appropriate entry was made in the Register. Each landholder had a copy of his registered title issued to him as immediate evidence of ownership - a practice analogous to the issue of share certificates by a public company as evidence of shareholdings in that company.

These legal innovations produced two important effects on the peasant economy of Malaya: firstly, all peasants who could procure registered titles to their land (this was easily done on payment of a small fee) were immediately aware of sizeable economic assets in their possession; and secondly the availability of cultivable land for future expansion peasant production became severely restricted.<sup>6</sup>

The principal objective of the British administrators in modernising land law and tenure systems in the Malay states was to facilitate large-scale foreign investments both in tin mining and in rubber plantation.

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6 The imposition of Western legal system upon a subsistence economy transformed the peasant's usufructuary interest in land into an absolute one; but he was not equipped to take the plunge into the market economy yet. see G.K. Meek, Land Law and Custom in the Colonies, Oxford, 1949, p. 26.

Both tin mining and rubber plantations were industries that required extensive tracts of cheap land for their operation and investors could only be encouraged by the availability of long-term leases with the minimum of legal restraints upon their use of the land. In addition, the growth of the administrative machinery in these States required that there should be a sizeable increase in the revenue. British land policy in the Malay States in the early period was influenced as much by the desire to augment revenue as by the desire to rationalise and modernise the social and legal institutions of a backward economy.

The rapid expansion in plantation agriculture, especially of rubber, after 1900 marks the turning point in the subsistence economy of peasant agriculture. The growing differentials in the revenue productivity of land planted to rice and to rubber impressed the peasantry in favour of rubber cultivation. The advantages of rubber cultivation were also strengthened by the fact that, once mature, the rubber trees represented a perennial crop rather than an annual like rice; further the owner of a rubber small-holding could be employed almost throughout the year whereas the/

the padi cultivator was really active for only about three months of the year. In surveying the structural changes that have overtaken the peasant economy in Malaya one is struck, not by the extent to which they have gone over to exclusive dependence in the production of cash crops, although this is sizeable, but mainly by the limited extent to which they had foregone subsistence production for the production of export crops. At the turn of the century the Malay peasant economy was based on the principle of self-sufficiency in rice and a few other food crops; but in 1960 the pattern of peasant production had changed considerably. Even the figure of 1,200,000 acres shown in Table V.1 cannot be truly regarded as being entirely rubber under peasant production because it includes a considerable acreage in the size group 10-25 acres. These larger farms are owned by absentee landlords in non-agricultural occupations in the nearby towns. Such landlords comprise Malay and non-Malay members of middle-income occupations, ranging from civil servants and other Government employees to traders of all kinds, who seek to gain quick profits through dealing in rubber land and in speculation.

TABLE V.1  
AREA INVOLVED IN PEASANT  
PRODUCTION, Malaya, 1960

CROP	('000) Acres	Percentage
Rubber	1,200	40
Padi	941	31
Coconut	434	15
Other (minor)	427	14
Total	3,002	100

Source: Agricultural Census, 1960

TABLE V.2  
AREA INVOLVED IN ESTATE  
PRODUCTION, Malaya, 1960

CROP	('000) Acres	Percentage
Rubber	2,242	90
Oil Palm	135 (5%)	10
Coconut	86 (3%)	
Pineapple	15	
Tea and Others	9	
Total	2,487	100

Source: Agricultural Census, 1960.

It would therefore be more realistic to assess the proportion of peasant land under rubber as being around 30-35% rather than 40% of their total cultivated area. This is in dramatic contrast to the 90% of rubber land in the total area under estate-type production.

In large measure the relatively poor economic performance of the peasant sector as opposed to the modern sector of the Malayan economy is directly attributable to this structural difference, that its' stake in export crops production was considerably smaller. In the past, the usual explanation of the backward condition of the peasant economy has been in terms of the traditional conservatism and irrational conduct of the peasantry. No satisfactory explanations have been offered of the structural and institutional changes attendant on the growth of the dual economy that have seriously hampered, if not completely blocked, increasing participation of the peasantry in the exchange or market economy.



Those who appear to be most keenly aware of the social and psychological blocks in the way of the peasantry's adaptation to a market economy are unable to offer any satisfactory explanation of ~~low~~ peasant cultivation of rubber had within two decades (1900-20) risen from nothing to almost a million acres. And this remarkable record was achieved during a period when official Government policy to the small farmer was at best total indifference, and at worst discouragement of rubber cultivation.

It must, however, be emphasised that Government land policy which tended to favour large-scale plantation cultivation of cash crops rather than peasant cultivation of the same was not motivated by any sinister intentions towards the latter. In this over-eagerness to augment Revenue and to develop the country they may have been very liberal in their alienation of land to foreign enterprises. But until the export slumps of the twenties they had not deliberately put any obstacles in the way of the peasantry engaging in rubber cultivation.

There was no significant move by the Malay peasantry to undertake rubber cultivation until purchasing agents had become widely established at local villages or in nearby towns so that they did not have to solve the problems of transportation themselves. The initial moves made towards cultivation of rubber were cautious and tentative, the rubber plants being generally interplanted with other garden crops and plants. The peasantry's traditional belief in the virtues of self-sufficiency in subsistence crops, especially in the staple, rice, was never abandoned. Thus the earliest transition witnessed the growth of mixed farming, the cultivation of subsistence and cash crops. It may be argued that they were behaving irrationally in not specialising in the production of that crop which had the better terms of trade. Such a criticism may be valid under static conditions and under the assumption that conversion from one line of production to another involve no risks or uncertainties. Again rubber production involved a considerable period for the 'maturing of capital,' (the investment took seven years to bear fruit) and hence, with the low level of subsistence income afforded by peasant production, it must be said/

said that the caution shown by peasant producers in raising cash crops was a result of rational economic calculation than otherwise. The nearer one is to the subsistence level of income, the greater the risks involved in undertaking new lines of production. In addition the traditional settlement pattern of the Malay peasantry was in riverine valleys where padi can be grown: hence when land occupied by the Malay peasantry came to be registered (before the extensive development of rubber cultivation) it was chiefly low-lying padi land. From the initial impact of boom conditions in rubber cultivation the Malayan economy suffered differential growth rates in land values that worked adversely towards peasant producers: the price of padi land began to stagnate or decline whereas rubber land enjoyed high prices. This hampered any Malay peasant who wanted to convert to rubber production in a big way because the exchange ratio between rubber land and rice land was so unfavourable to the latter. Hence the cultivation of rubber by the Malay peasantry was largely confined to small plots in their settlement areas (or kampongs), generally interplanted with other, smaller, plants and, to a less/

less extent, to remote jungle clearings. Thus the productive efficiency of peasant farmers was hampered not only through their geographic and economic confinement to a rice or padi culture but also because of the advance of the 'traders-cum-creditors' into the subsistence sector. Some have tried to attribute the growing indebtedness of the peasantry in dual economies to their ignorance of a monetised marketing system or, alternatively, to their ignorance of prevailing economic conditions, especially relative prices, or, worse, to their indifference to the whole economic calculus. But until recently few studies have been made of the rationale of peasant indebtedness for the successful penetration of the peasant or subsistence sector by the market economy.<sup>7</sup>

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<sup>7</sup> Characteristically, the advance of commercial activity into the peasant economy in Asia has led to the disruption of the latter's stable conditions of production. See, A. Ghosh, "The Impact of Commercial Growth on Agricultural Tenure Systems in India," The Manchester School of Social and Economic Studies, Vol. XXIII, May, 1955.

It is a characteristic feature of all dual economies that the traders who penetrated the traditional subsistence sector had to build up an extensive credit system for the peasantry in order to maintain their trading operations and also as a strong inducement to the peasant to produce for the market. The trades, as middleman was in a crucial position to control two separate lines of marketing: that of primary agricultural produce from the peasant sector and of manufactured imports handled by large wholesale establishments and import - export firms in the modern sector. Thus the trader in the rural sector had assumed the characteristics of both a monopsonist and a monopolist in his respective roles as buyer of peasant produce and seller of merchandise. The peasant was committed in advance of his actual production to the trader for the provision of goods of credit. With the growing sophistication of the peasantry it became necessary to replace the system of exchange of goods with the provision of money loans. Hence the multiple roles of the rural trader as merchant, marketer of primary produce and money lender.

The earliest Government measures to improve farming methods along more scientific lines were based on the policy of encouraging the expansion of subsistence crops production to meet the needs of the rapidly increasing population. The Krian Scheme, completed in 1906, was the first major attempt to reclaim hitherto uncultivable land through the building of an extensive network of drainage and irrigation canals. This project brought to 50,000 acres in northern Perak controlled water supply, the most important pre-condition for wet padi cultivation. However, there was a dramatic change in Government attitude to subsistence crops production after the introduction of rubber plantations. This policy has been justified on the grounds that it was cheaper to purchase rice abroad with the export proceeds from rubber than to encourage its' production at home. It was also argued that peasant cultivators would be better off in rubber than in padi cultivation.

But the important feature of this policy was that since the Krian Scheme of 1906 no major development of land resources for subsistence crops was undertaken for about thirty years.<sup>8</sup> The Depression of the thirties brought to an end the boom conditions in the production of rubber and tin and had prevailed for two decades. The rubber - rice price ratio had shifted against the former and the Government was concerned that only one-third of the total consumption of the staple food was being produced locally. A Committee appointed by the Government to study the problem of self-sufficiency in food crops reported in 1931.<sup>9</sup>

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8 A.S. Haynes, Extension of Rice Cultivation in the Federated Malay States: Need of a Definite Policy, Federal Legislative Council Paper, No. 28, 1933.

9 see Federated Malay States: Report of the Committee of Inquiry into Rice Cultivation in Malaya, Kuala Lumpur, 1931.

Having the Krian Scheme as its' only precedent in this field, the Committee, not surprisingly, advised more of such developmental projects so that a larger acreage would be planted to padi. In order to facilitate the extensive opening up of padi land, the Committee recommended that the Hydraulic Branch of the Public Works Department be reorganised and expanded as the Drainage and Irrigation Department, so that its' work will be chiefly concentrated on the development of agricultural land.

The passage of the Malay Reservations Enactment of 1913 <sup>can</sup> only be described as a piece of hasty legislation intended to check the rapid absorption of the peasant production sector into the market economy. It empowered each of the State Governments to declare any area to be a Malay Reservation and therefore not alienable to non-Malays. Such legislation merely froze the social and economic status quo without remedying the root causes of the problem of indebtedness among the peasantry. The immediate effect of the Malay Reservation laws coming into operation was that land values in these areas dropped and therefore more land had to be mortgaged for the same amount of loan or less credit/



credit, and at higher interest rates, was being offered then before. Most important of all, the 1913 legislation had left a loophole in that mortgagees could successfully foreclose upon mortgaged land even though they were in Malay Reservations. These were finally rectified by the Amendments passed in 1931 and 1933 so that henceforth no non-Malay could acquire any interest in such land. But it became the practice for the money-lender to acquire a Malay resident of the Reservation as his agent and to transact all his interests in land through him. So that the end result of the Malay Reservation laws has not alleviated peasant indebtedness and low incomes nor has it brought security of tenure to the peasant cultivator. It has in fact created a new class of land owners among the Malays, resulting in the concentration in ownership of farm land (still cultivated by landless farmers) but without any of the benefits of large-scale production as in the plantation sector.

Government land policy in the inter-war period was successful in preventing further alienation of peasant land to non-Malay traders and money-lenders from the urban areas.

But the basic causes of rural poverty and indebtedness were not solved through the growth of alternative sources of credit. The restrictions imposed upon the peasant's rights of alienation merely reduced the mortgage value of his land whereas at the same time traders began to extend credit through indirect ways such as through a nominal Malay creditor who could hold the mortgage on the land. Under such uncertain conditions the supply of credit became limited to shorter periods and was at exorbitant rates of interest. Both factors were primarily responsible for the progressive subdivision and fragmentation of peasant smallholdings since the enactment of the Malay Reservation Laws. This process of disintegration has been particularly acute in the rice growing areas of Malaya where seasonal credit is more critical for production than in rubber cultivation. A study of a rice growing area in the Krian district, which is an area of recent settlement, was undertaken by T.B. Wilson<sup>10</sup> in order to discover the extent to which peasant holdings were being progressively reduced in size.

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10 T.B. Wilson "Some Economic Aspects of Padi Land

When the settlement was newly opened at the turn of the century, it was intended to provide the new farmers with adequate land to be worked by the family unit. Thus about 80 per cent of the newly settled farms were between 3 and 10 acres in size according to the size of the family. A comparison between the size distribution of the peasant rice farms in 1900 and 1954, covering the same area in Krian, is shown in Table V,<sup>3</sup> which is derived from Wilson's survey. The majority of the peasant rice farms in 1900 were in the larger size class, especially 3-99 acres (79 per cent). Further a significant proportion (12 per cent) were above 10 acres in size. But the situation in 1954 was overwhelmingly unfavourable to the rice farmer.

A Government study of the economic problems of rice cultivation in Malaya reported in 1958 that the minimum requirement for a rice cultivator to attain a reasonable standard of living was 5 acres of first class padi land.

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contd. Ownership," Malayan Agricultural Journal,  
Vol. 37, No. 3, 1954, pp 125-127.

But as the Krian survey revealed, more than two-thirds of the farms under rice cultivation in an area, which has been only settled about fifty years ago, were under 3 acres in size. But the most outstanding result of this comparison is the fact that the most uneconomic farms of under 2 acres had grown from a mere 2 per cent of the total number of farms to 53 per cent in 1954.

Table V.3  
Comparison of the Size Distribution  
of the Same Rice Land  
in the Krian Area: 1900 and 1954

Size Group	Percentages	
	1900	1954
Less than 1 acre	-	24
1-19 acres	2	29
2-2.9 "	7	15
3-4.9 "	37	23
5-9.9 "	42	6
10 acres and over	12	3
Total	100	100

Source: Adapted from T.B. Wilson's article in the Malayan Agricultural Journal, 1954.

In general the average size of peasant rubber smallholding was bigger than the rice farms. This may be due to the fact that rubber production, being a perennial task, unlike rice cultivation, made the peasant less dependent on the supply of credit at critical times. One of the major causes of indebtedness among rice farmers is that the seasonality of their specific tasks requires credit (for seed, fertilizer and draught animals) at times when the demand is universal and supply falls far short of it. The rubber cultivator is however free to wait till the demand for credit has eased; unless his demand for credit arises from social and family needs rather than from production needs. A survey in a Malay Reservation devoted to rubber cultivation found that the average plot was about 3 acres.<sup>11</sup>

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11 E.K. Fisk, Productivity and Income from Rubber in an Established Malay Reservation, Malayan Economic Review, Vol. VI, No. 1, April, 1961, p. 17.

Its' conclusions are equally applicable to the rice sector: "Under these circumstances it must be concluded that the application of the Malay Reservations Enactment to this reservation, while preserving Malay ownership of much of the area, has not been effective as a means of promoting a sturdy independent and relatively prosperous Malay peasantry.<sup>12</sup>

The two main results of Government policy towards the peasantry after the Depression were a) the extension of the area under padi cultivation in small farms and (b) the restriction of economic opportunities to the farmer by the creation of Malay Reservations. The implementation of these policies coincided with the general restrictions imposed on the production of rubber by international agreement. The fact that the local implementation of rubber restriction proved less favourable to the peasant smallholder than the larger plantations was another discouraging factor to the process of commercialisation of peasant production.

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<sup>12</sup> Ibid, p. 22.

Another important contributory factor in the economic decline of the peasantry is the Muslim law of inheritance which makes no distinction between real and personal property and prescribes elaborate and precise rules for distributing a deceased persons' property. Most peasant smallholdings (i.e., lots of under ten acres) are held under an 'Entry in the Mukim Register,' which is a transferable title tenable in perpetuity. For the Malay peasant smallholder, the title to his land is often virtually the only component in his estate, with the result that even quite small holdings of 2 to 3 acres are often held by a number of owners, each having small undivided shares in the whole. The traditional attachment of the Malay to the ownership of land as much as lack of alternative economic opportunities has been an important factor in perpetuating the process of land subdivision and fragmentation.<sup>13</sup>

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13 see for example T.B. Wilson, "The Inheritance and Fragmentation of Malaya Padi Lands in Krian, Perak," *Malayan Agricultural Journal*, Vol. 38, No. 2, 1955, pp. 71-77.

The latter process is the ownership by one person of several sub-divided and tiny pieces of non-contiguous land, inherited at different times and from different sources. The effect of this on economic opportunity and incentives has been, in the negative, sense, considerable. It means that the majority of such owners cannot operate their own holdings, and some system of tenancy or share-cropping is almost unavoidable. As a result, the income to the co-owners is small and other employment is a necessity, leading to a widespread lack of effective interest in improving the methods of cultivation both among the owners and the share-croppers. A reverse or opposite trend in land-ownership that has been termed consolidation, or the acquiring of contiguous sub-divided plots by one owner has been less evident in Malaya. Generally, the new owners of such consolidated plots were urban white collar workers in search of safe investments. Such absentee owners were content to delegate management to local residents or relations. Thus the benefits to agricultural productivity from consolidation of plots, however few, are more formal than real.



With the growth of the rural population the amount of land available for the cultivation of each peasant family has progressively declined. Both in peasant farming and in fishing the scarcity of complementary factors of production has become a critical problem. Low productivity in this sector is a consequence of the uneconomic size of plots worked and the scarcity of short-term working capital. Low productivity and low incomes have been the primary cause of under-nourishment which has led to the progressive decline of the quality and quantity of labour inputs in the small-holder economy. A survey carried out among three groups of low-income workers in Malaya showed that peasant farmers were the least efficient group in terms of physical labour inputs.<sup>14</sup>

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14 R.C. Burgess and Laidin bin Alang Musa, A Report on the State of Health, the Diet and the Economic Conditions of Groups of People in the Lower Income Levels in Malaya, Institute of Medical Research Report No. 13, Kuala Lumpur, 1950.

The comparison is made between Malay peasant farmers and fishermen and Indian wage-workers in the rubber plantations, as shown in Table V.4.

**Table V.4**  
**Recorded Hours of Daily Physical Activity**  
**of Adults in Three Different**  
**Working Communities.**

Group	Nature of Work				Total Hours	
	M	Heavy (Hrs.)	F	Light to Moderate (Hrs.)	M	F
Malay Smallholders (Self-employed)	1.3	0.5	2	2.6	3.3	3.0
Malay Fishermen (Self-employed)	3.2	-	0.8	5.2	4.0	5.2
Indian Rubber Workers (Wage Labour)	3.8	3.0	3.6	4.0	7.5	7.1

M = Males; F = Females

Source: R.O. Burgess and Laidin Musa.

It will be observed that the Malay smallholder was able to put in less than half the physical labour effort that the Indian worker in the larger production units (estates) was required by the terms of his contract of employment, to do.

The rather low level of physical productive effort by Malay Fishermen does not convey the whole picture, however. Allowance must be made for the fact that for about four months of the year fishing activity would have been brought to a standstill because the small craft used could not weather the rough seas during the monsoon season. One can therefore tentatively offer the generalisation that the rural labour force in terms of the physical effort put into production. Social surveys generally tend to emphasise the obvious features of such rural life, low nutritional and health standards. But from an economic development point of view it would be of the utmost importance to stress the critical shortage of complementary factors of production which alone can provide the rural community with the self-assurance that comes of active participation in their own improvement.

Traditionally, Government concern with labour problems has been confined to the modern sector. This attitude probably originated from the general administrative policy of indirect rule, whereby the indigenous way of life was not to be interfered in, as /

as traditional Malay institutions were expected to suffice here. Hence, the subsistence mode of production had pre-dominated the rural sector. Age-old techniques of production have scarcely changed in the subsistence sector while the rest of Malayan economy had been subject to dramatic, if often violent, changes.

The chief characteristic of the subsistence mode of production has been the small or negligible size of the marketable surplus that each production unit (farm family) yields. At the turn of the century, before rubber became an important cash crop, the Government made some attempt to increase local production of food (especially rice) to meet the growing local market. But these and subsequent attempts were confined to the opening up of new land for rice cultivation through improved drainage and irrigation facilities. But the mode of production remained essentially the same: production in small units, ensuring the sufficiency of the labour inputs from a family and of its' consumption needs.<sup>15</sup>

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15 The stationariness of agricultural production or

The increases in Malayan rice production over the years, both in absolute terms and as ratios of the total volume consumed annually, are explained by the larger numbers of rice farmers rather than by any significant increases in the share of the marketable surplus yielded by each production unit. This is the case although the average yield per acre has more than doubled over this period. This failure to achieve commercialisation of rice production in the rural sector may be attributed to several causes:

- 1) traditional social and religious attitudes to economic activity.
- 2) the combined effect of population growth and inheritance.

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15 (contd.) the fact that agricultural production increases at the same rate as population noted in several comparative case studies in Asia and Africa, is basically attributable to this feature of production organisation. see Colin Clark and Margaret Haswell, *The Economics of Subsistence Agriculture*, London, 1966, pp. 69-75.

inheritance laws in any settlement established for more than a generation is to introduce problems of subdivision and the farming of uneconomic, fragmented smallholdings.

3) the absence of effective marketing organisations among peasant producers, so that middlemen profits would be eliminated.

4) the low level of savings, which in turn was produced by the low level of economic activity.

A considerable number of smallholders are also engaged in cash crop production exclusively or in conjunction with the production of subsistence crops. Increasing Government attention has been paid to this sector in recent years perhaps in the belief that the adoption of a few technical innovations might produce spectacular results in higher productivity and incomes. But any future increases in the income of this sector has to be weighed against the heavy Government capital expenditure.

A long-term strategy for the economic development of the smallholder sector will have to consider a structural evolution of a predominantly subsistence economy into a more market-dominated one.

Such a change can only be brought about if the Government gave priority to revolutionising the social and technical aspects of the mode of production.<sup>16</sup> The present passive policy of providing more land and better seeds can only produce short-term improvements that would perhaps be wholly absorbed by the producers and the ever-increasing size of the dependents.

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16 For a forceful statement of the problems involved, see U.A. Aziz, "The Interdependent Development of Agriculture and Other Industries," *Malayan Economic Review*, Vol. IV, No. 1., April, 1959.

## Chapter VI

### Population Growth and the Decline of Immigration

#### A. Growth of the Population

The population growth of Malaya is as closely related to the introduction of the export economy into the country that it provides a unique guide to understanding the transformation of the economy from a stage of acute labour shortage at the beginning of a modern development to the present situation of a labour-surplus characteristic of many under-developed countries. In 1871, when the population of the Straits Settlements, comprising the trading outposts of Penang, Singapore and Malacca, was enumerated at 308,000, made up chiefly of immigrants, the most liberal estimate of the population in the Malay States of the Peninsula could not have exceeded 400,000.<sup>1</sup>

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1 Newbold had estimated the population of the Malay States in 1835-36 to be 280,000. See T.J. Newbold, Political and Statistical Account of the British Settlements in the Straits of Malacca, London, 1839.



But within a period of three decades, when British administration had gradually established law and order in the western states of the Peninsula and had provided facilities for extending plantation agriculture and mining operations, the population had more than doubled itself and stood at more than one million persons in 1901. But the nineteenth century remained essentially a period of small-scale enterprise with a somewhat limited demand for wage-labour. The remarkable increase of population by about 100 per cent during the short period is largely attributable to extensive prospecting for tin and the labour-intensive methods of mining employed. It must also be emphasised that the large percentage gain experienced at this time is mainly to be explained by the rather small base population figure that Malaya started with. Thus the establishment of an export economy of even modest proportions, as it was in nineteenth century Malaya, side by side with the indigenous subsistence economy, was able to produce a major demographic change.

We have summarised in Tables VI.1 and VI.2 the chief characteristics of the population growth in Malaya since the turn of the present century.

In general, the expansion of the export sector and the development of ancillary industries, trades and businesses was accompanied by a five-fold increase in the population. But this general observation masks a number of important demographic developments that occurred during this time, for which a closer examination of the tabulations is necessary. It may be convenient to consider Malayan demographic changes under the following periods, in view of the considerable part immigration played and the fact that the 1930's was an exceptional period for immigration: (i) the early period 1901 - 1920, (ii) the middle period of economic adjustments to uncertainties of world markets, 1921-40; (iii) the effects of the Pacific War and Japanese Occupation 1941-46; (iv) and finally the post-War period.

The first decade of the twentieth century in Malaya produced not only a 'rubber boom' but also a 64 per cent increase in the population. In percentage as well as absolute terms these gains went mainly to the four Federated Malay States which had been developed under direct British administration and where communications and development had proceeded farthest.

TABLE VI.1

## The Population of Malaya, 1901-57.

Territory	Population (in thousands)						
	1901	1911	1921	1931	1941	1947	1957
<b>Straits Settlements:-</b>							
Singapore	220	305	420	560	769		
Penang & Malacca	343	395	446	527	655	685	863
<b>Federated Malay States:-</b>							
Perak	330	502	611	786	993	954	1,221
Selangor	169	294	401	533	701	711	1,031
Negri Sembilan	96	130	179	234	296	268	365
Pahang	84	119	146	180	222	250	313
<b>Total, F.M.S.</b>	679	1,045	1,337	1,733	2,212	2,183	2,912
<b>Unfederated Malay States:-</b>							
Johore		180	282	505	675	738	927
Kedah		246	339	430	525	554	702
Perlis		33	40	49	58	70	91
Kelantan		287	309	362	408	449	506
Trengganu		154	154	180	206	226	278
<b>Total, U.M.S.</b>		900	1,124	1,526	1,872	2,037	2,504
<b>TOTAL, MALAYA<sup>(*)</sup></b>	<b>1,500</b>	<b>2,339</b>	<b>2,907</b>	<b>3,788</b>	<b>4,739</b>	<b>4,908</b>	<b>6,279</b>

(\*)

excluding Singapore

Source: Malayan Censuses, 1921, 1931, 1947 and 1957

Federated Malay States Annual Reports.

TABLE VI.2

## Decennial Rates of Growth of the Population, 1901-57

Territory	Population Increase (in percentages)					
	1901/11	1911/21	1921/31	1931/41	1941/47	1947/57
<b>Straits Settlements-</b>						
Singapore	39	38	33	37		
Penang & Malacca	14	14	19	20	5	25
<b>Federated Malay States:-</b>						
Perak	50	22	29	30	3	28
Selangor	74	36	33	32	1	43
Negri Sembilan	36	37	31	26	9	36
Pahang	41	23	23	23	13	25
Total, F.M.S.	53	28	29	29	2	33
<b>Unfederated Malay States:-</b>						
Johore		56	79	34	9	25
Kedah		38	27	22	5	27
Perlis		23	23	13	21	29
Kelantan		8	17	12	10	13
Trengganu		-	17	16	10	23
Total, U.M.S.		25	35	20	9	23
<b>TOTAL MALAYA<sup>⊗</sup></b>	<b>64</b>	<b>24</b>	<b>30</b>	<b>24</b>	<b>3</b>	<b>28</b>

⊗

excluding Singapore

Source: Malayan Censuses, 1921, 1931, 1947 and 1957;  
and Federated Malay States Annual Reports.

All the major known deposits of tin ore were confined to these four states and Chinese enterprise had been attracted in greater numbers to tin mining since the extension of law and order into the hinterland of the Malay Peninsula. In the subsequent period 1911-20, the rubber industry had already been well established in Malaya and the decennial population increase was only 24 per cent. But it is significant to notice that both Johore and Kedah, which had remained outside direct British rule, were belatedly experiencing demographic changes which had been characteristic of the Federation in the earlier decade. Both Kedah and Johore, being geographically more related to the other western states in the Federation, offered opportunities for plantation agriculture. Thus Johore, in the hinterland of the major of Singapore had a 56 per cent increase in its population, whilst Kedah, less accessible, had an increase of 38 per cent.

The middle period of 1921-40 witnessed the declining fortunes of the tin industry and the introduction of rubber restriction in Malaya on a substantial scale, scarcely a decade or so after the great rubber planting boom.

Although the early 20's had begun rather gloomily with depressed conditions in Malaya's export markets, the unilateral imposition of rubber restriction in British territories through the Stevenson Scheme, had artificially steadied prices until the business upswing of 1925 came along and carried Malaya into a short period of windfall export-gains. The end came rather swiftly in 1928 when set backs in world industrial production caused a big drop in rubber prices and even the Stevenson Scheme was found to be inadequate to deal with the situation. The economic uncertainties of the 1920's caused by such wide fluctuations in export prices were, however, manageable and did not therefore produce a noticeable impact on the level of employment and hence on immigration in Malaya. The inter-censal population increase was 30 per cent; the important gainers being Johore with 79 per cent and the Federated Malay States which had an increase of 29 per cent.

Although a census was scheduled for 1941, it was abandoned by the approach of the War and the figures used in our tabulation are therefore, not census figures, but official estimates based on statistics of births, deaths and the migrational surplus.<sup>2</sup> Although they are only crude estimates, their use in this tabulation would enhance rather than detract from the value of the demographic analysis presented here. This will be done by isolating the War years 1941-46 which was a period of abnormal demographic conditions in Malaya, so that in discussing the changes between the pre-War and post-War patterns of growth, the special significance of the War years may be more easily highlighted. The Great Depression of the early 1930's had an unprecedented effect on the statistics of migration which are not revealed by the decennial growth of 30 per cent shown in this tabulation. This is because the migrational deficits of the depression years were recouped in the 1934-38 period through migrational surpluses brought about by rising export prices.

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2 Census of the Population of Malaya, 1947.

The War Years 1941-46 were abnormally lean years for Malaya, demographically speaking. The population of Malaya increased by 3 per cent over this period, representing an annual rate of increase of 0.6 per cent only. Of much greater significance is the actual decline in numbers in the Federated Malay States, where the immigrants were more heavily represented. This difference cannot be explained in terms of military operations during the war or geographical differences in the extent of casualties and war-damage. It would be true to say that Malaya was not subject to military operations in any significant extent. The decrease of 2 per cent in the population of the Federated Malay States during this period can be largely accounted for by the fact that the Japanese used considerable numbers in forced labour, drawn especially from the immigrant wage-labour force in the plantations, for several projects including the infamous Siamese 'death railway.' Although statistics are not available, this period was also marked by food shortages, nutritional deficiencies and consequently high death rates and high infant mortality rates, especially among the immigrant population.



In the indigenous Malay subsistence sector the changes brought about by the Occupation were less burdensome, as they had been less dependent on the monetised market economy. In addition, this period also covers 1946, the first year after the War which was marked by a sizeable migrational deficit. We have to take into account an extraordinarily large proportion of the immigrant population (especially among Indians) which was returning to their country of origin, either temporarily or permanently. Chinese immigrants were not affected to the same extent because political and economic conditions in China remained uncertain after the war.<sup>3</sup>

In the last decennial period, the population of Malaya had increased from 4.9 million to about 6.3 million, an increase of 28 per cent.

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3 C.A. Fisher, "Some Comments on Population Growth in Southeast Asia, with Special Reference to the Period Since 1830," in the Economic Development of Southeast Asia, (ed. C.D. Cowan), London, 1964, pp. 65-68.

TABLE VI.3Statistics of Migration, 1931-57.

POPULATION IN THOUSANDS				
TOTAL POPULATION (Thousands)	YEAR	ARRIVALS	DEPARTURES	NET MIGRATION (-indicates net loss of migrants)
3,788 (census)	1931	276.9	461.2	-184.3
	1932	214.4	373.4	-159.0
	1933	202.0	240.8	- 38.8
	1934	404.0	265.3	138.7
	1935	441.9	313.7	128.2
	1936	414.8	227.7	187.1
	1937	621.0	349.9	271.1
	1938	262.6	325.9	36.7
	1939	269.0	263.1	5.6
	1940	<u>224.4</u>	<u>227.8</u>	<u>- 3.4</u>
Total 1931/40		3,431.0	3,048.8	381.9
Average 1931/40		343.1	304.8	38.1

{ No figs. are available for the years 1941-46)  
 { as the country was under Japanese  
 { Occupation. }

TABLE VI.3

Statistics of Migration, 1931-1957 (contd.)

		POPULATION IN THOUSANDS		
TOTAL POPULATION (Thousands)		ARRIVALS	DEPARTURES	NET MIGRATION (-indicates net loss of migrants)
YEAR				
4,908 (census)	1947	53.0	64.7	-11.7
	1948	72.0	74.7	- 2.7
	1949	71.6	77.9	-56.3
	1950	97.8	85.3	12.5
	1951	94.9	97.7	- 2.8
	1952	97.5	87.1	10.4
	1953	95.6	74.8	20.8
	1954	76.2	72.6	3.6
	1955	92.0	83.2	8.8
	1956	111.7	95.4	16.3
6,279 (census)	1957	120.6	107.2	13.4
Total 1947/57		982.9	920.6	62.3
Average 1947/57		89.3	83.7	5.7

Source: Malayan Population Census Reports, 1947 and 1957.

Although this rate of increase was similar to those increases of the pre-War period, the major difference is that natural increase rather than immigration played the major part in it. This will become clear from the tabulations presented in Table VI.4. In the ten years 1931-40, the migrational surplus accounted for about 382,000 in the population whereas in the eleven year period 1947-57, this amounted to only 62,000 persons. It will be shown through an illustration of various other demographic trends that in the post War period the Malayan population had largely divested itself of its' migrant character and had taken root and stabilised itself. It was not only the Chinese and Indians who accounted for the migrant character of the Malayan population. It was estimated by Vlieland, the superintendent of the 1931 census that some 244,000 of the 594,000 Malays enumerated in the Federated Malay States in that year were either new Indonesian immigrants or the descendants of immigrants who entered the country between 1891 and 1931. This meant that less than 60 per cent of the Malay population in 1931 had been in Malaya for more than forty years.

Official enumeration of Indonesian arrivals had been confined to the rather small number of Javanese who had immigrated to Malaya as indentured labourers and wage-earners and such immigration was allowed under strict Dutch supervision at their points of departure in the East Indies. As the 1931 census revealed, considerable numbers of Indonesian immigrants had entered Malaya during the first three decades of this century on small craft and fishing boats and merged into the indigenous Malay subsistence economy. As a result the Malay population had increased from 1,410 thousand in 1911 to 2,248 thousand in 1941. What proportions of this increase were due to the excesses of births over deaths and what was due to immigration cannot be determined exactly.<sup>4</sup>

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4. However the 1947 Census Report did produce a tabulation of the Malay population by Birthplace which showed 68 per cent to have been local born. See Report of the Census of the Population of Malaya, 1947, Kuala Lumpur, p. 89.

It is certain, however, that a considerable part of this increase must have been due to the migration of Indonesian settlers into the country. Although, immigration has ceased to be an important factor, it will be seen that the growth rate of the 'stable' population of 2.8 per cent per year is one of the highest among under-developed countries. But as shown in Table VI.4, the full consequences of this stabilisation or normalisation of the population will become clear only after the 1967 census. However, census projections based on 'medium' fertility rate among Malayan females already indicate that the annual rate of increase would be about 4 per cent, a rate of growth which will double the population in 25 years. This view is strengthened by the fact that the sex ratios among the immigrant groups has begun to get normalised only after 1947, and in the case of the Indians this trend will continue after 1957, as shown in Table VI.5.

TABLE VI.4

Annual Rates of Increase of the  
Population of Malaya, 1901-1967

Year	Population (million)	Period	Annual Rate of Increase (per cent)
1901 (Est.)	1.2	-	-
1911 (Census)	2.3	1901/11	9.1
1921 (Census)	2.9	1911/21	2.4
1931 (Census)	3.8	1921/31	3.0
1941 (Est.)	4.7	1931/41	2.4
1947 (Census)	4.9	1931/47	1.9
		1941/47	0.5
1957 (Census)	6.3	1947/57	2.8
1967 (Projn.)	8.8	1957/67	4.0

Source: Census Reports, 1947 and 1957

The more settled character of the population of Malaya in the post-War period is therefore easily discerned from the characteristics of its' growth in the last decennial period as shown in these tabulations.

The most remarkable feature of population growth in Malaya during the first three decades of the present century was undoubtedly the rapid growth in the size of the immigrant populations, concentrated mainly in the export-oriented Federated Malay States and the Settlements of Penang and Malacca. Subsequently, the expansion of rubber plantations also affected the two west coast states of Johore and Kedah which were outside direct British administration. Immigrant labour therefore began to enter these two states in large numbers in the second decade. The Great Depression which ushered in the third decennial period of population growth also marked the end of unrestricted immigration in Malaya. The selective controls imposed by the Government, especially on Chinese immigration were intended to create a more settled labour force in the country. The large influx of Chinese female immigrants during the 'thirties was able to raise the sex ratio among the Chinese population from 513 in 1931 to 815 in 1947.



As Indian immigration had become more institutionalised and Government departments and the plantation industry had a more direct influence on it, the suspension of certain basic inducements such as free tickets was found adequate to deal with the problem. This in effect meant that the migrational deficits of the Indian population in Malaya during the Depression period were made good when export markets revived from 1934 onwards. As there were no quotas or selective entry restrictions on Indian immigrants as there were in the case of the Chinese, Indian immigrant labour continued to be chiefly of males. The sex ratio of the Indian population in 1947 was 687, showing that it was the least settled or stabilised component of the whole population, with the exception of the very small European population. However, the ban on the emigration of Indians to Malaya which was imposed by the Government of India in 1938 and the post-War restrictions placed on immigration by Malaya would seem to have permanently checked such sex-selective growth of the Indian population in Malaya. In 1957 the sex ratio of the Indian population had reached the unprecedented level of 746 but has more scope for improvement in the 1960's.

The Malay population which has a longer record of permanent settlement in the Peninsula had a sex ratio of 1,013 in 1957 while the ratio for the population as a whole was 939. Normalisation of the sex ratios of the immigrant groups (which make up one half of the total Malayan population) can only lead to a more rapid rate of natural increase of the population. Thus Table VI.5 shows that the expected rate of increase during the export boom of the first decade; but than the initial size of the population was only one-fourth of the 1957 figure.

TABLE VI.5

Sex Ratios Among the Malayan  
Population, by Ethnic Group, 1911-1957

(females per 1,000 males)					
Ethnic Group	1911	1921	1931	1947	1957
MALAY	na	957	971	1,010	1,013
CHINESE	215	384	513	815	926
INDIAN	320	406	482	687	746
EUROPEAN	na	488	536	na	416
Total	592	629	688	891	939

Source: Census Reports, 1947 and 1957.

### B Composition of the Population

One of the more obvious results in the composition of the population that was brought about by the particular circumstances responsible for Malayan population growth has been the changes in the racial composition. As Table VI.6 below shows the major change in the racial composition of the population occurred at the turn of the present century when the share of the Malay population declined from 61 per cent in 1901 to 54 per cent in 1911 and correspondingly the share of the immigrants rose from 39 per cent to 46 per cent in the same period.

TABLE VI.6

#### Ethnic Composition of the Population

Malaya 1901-1957

Ethnic Group	(percentages)						
	1901	1911	1921	1931	1941	1947	1957
Malay	61	54	54	49	41	50	50
Chinese	26	34	29	34	44	38	37
Indian & Others	13	12	16	17	15	12	13
Total	100	100	100	100	100	100	100

Source: Census Reports, 1947 and 1957.

Thereafter until the outbreak of the War the share of the immigrants rose gradually to 59 per cent whereas that of Malays had declined to 41 per cent in 1941. Both the 1947 and the 1957 Censuses, after the War revealed that the immigrant population had declined to 50 per cent of the total and that the Malays had gained relatively.

In the course of population growth in Malaya, the proportion of the local-born as opposed to foreign-born persons gradually increased, as can be seen in Table VI.7, on the next page. This is a demographic trend that is closely related to the stabilisation of the migrant population through improvements in the sex ratios. As noted earlier, this trend had proceeded further among the Chinese than among the Indian population. It is, therefore, not surprising to see that Indians had the lowest ratios of local born at all censuses. The analysis further shows in Table V.9 that the percentages of local born among immigrants females was generally higher than among the males. This was particularly the case among Indians, in both the 1947 and 1957 censuses.

TABLE VI.7

Percentages of Local Born in the  
Population of Malaya by Race, 1921-57

Ethnic Group	1921	1931	1947	1957
Malays	na	na	96	97
Chinese	21	30	63	76
Indians & Others	12	21	52	65
Total	56	59	78	85

Source: Census Reports, 1947 and 1957.

This is probably indicative of the fact that female immigrants because of marriage tended to become more permanently settled than the males. As considerable numbers of adult Indian males who immigrated to Malaya maintained families at home, they tended generally to be more migratory than the female population. Thus in 1957 only 57 per cent among Indian males were local born whereas among the female population the proportion was as high as 75 per cent. These observations are clearly brought out in Table VI.8.

TABLE VI.8

Percentages of Local Born in the  
Population of Malaya by Ethnic Group and Sex,  
1947 and 1957

Ethnic Group	1947		1957	
	Males	Females	Males	Females
Malays	95	97	97	98
Chinese	59	69	74	78
Indians	44	63	57	75
Total	74	83	82	88

Source: Census Reports, 1947 and 1957.

The initial expansion of immigrant populations in Malaya had been made up chiefly of adult males and consequently the earlier censuses tended to show abnormally low dependency ratios, that is, the ratios of persons not in employment (being below working age) to persons economically active in the population. Or expressed in another way, in the earlier phases of the growth of the Malayan population economically active persons tended to form an unusually high percentage of the total population.

This can be shown clearly by taking only the male population and observing their composition in terms of employment ratios over the years, as shown in Table VI.9

TABLE VI.9

Employment Participation Rates of Males, 1921-57

Year	1921	1931	1947	1957
Employed Male Population ('000)	1,303	1,525	1,463	1,603
Total Male Population ('000)	1,764	2,224	2,580	3,238
Employment Ratios (per cent)	74	69	57	49

Source: Population Censuses, 1921-1957.

Together with the statistics on sex ratios, percentages of local born among the population and those on net migration, we have ample evidence of a population that is rapidly becoming normalised especially after the War.

No satisfactory census data on the working population and their industrial and occupational distribution were obtained prior to the 1947 census.

Even categorisation of workers by status (whether self-employed, regular wage-employee, contract worker (casual) were not made available in census statistics prior to 1947. However, a comparison of the 1947 and 1957 figures, as shown in the tabulation below, reveals that among male population, the employees have gained, improving their share from 48 per cent to 57 per cent, chiefly at the expense of the self-employed.

TABLE VI.10

Employment Status of the Working Population  
by Sex, 1947 and 1957

Employment Status	1947		1957	
	Males NO. ( '000) %	Females NO. ( '000) %	Males NO. ( '000) %	Females NO. ( '000) %
Total Em- ployed	1,456 100	440 100	1,597 100	552 100
Self- Employed	678 47	127 29	613 38	128 25
Unpaid Fam- ily Workers	75 5	103 23	77 5	100 19
Employees	703 48	210 48	907 57	294 56

Source: Population Census of Malaya, 1957



For a more detailed understanding of these trends in the structure of employment, we should consider the changes in the industrial distribution of the working population over the same period, as shown in Table V.12. It is clear from the tabulation that except for the Building industry, the bulk of the increase in employment had come from Government Departments and business firms. These new employments ranging from the Police and Armed services to Public Utilities and other Departments would invariably have increased the employee category of workers. Unfortunately, neither the 1947 nor 1957 census provides any figures for casual employment as distinct from regular employment which is the prevalent pattern of employment in the Building industry. We are therefore not in a position to judge whether the share of casual labour in the total working population has declined or not. Moreover, the 1957 census figures of workers in Agriculture are suspect: this will become more obvious when we look at the breakdown of this figure in terms of subsistence agriculture and export crop cultivation. Such a breakdown reveals that the numbers in subsistence agriculture decreased from 680 thousand in 1947 to 573 thousand in 1957.

This discrepancy needs some explanation as one cannot take this change at its face value as implying that employment in the subsistence sector has begun to shrink even slightly. The real explanation would be that the method of enumerating the working population for the 1957 census was based on 'activity status' and not on the 'gainful worker' concept. Census enumerations had included in the working population only those who had attained a specified degree of employment participation over a given period. The standard used for the census was "persons who have been gainfully occupied for at least four months out of the preceeding twelve months, and part-time workers who average at least three hours a day - housewives and other unpaid home workers being excluded." Enumeration of workers on the above criteria, especially in the subsistence sector, was bound to result in under-estimation not only because of seasonality of the work but also because of the peasant's difficulty in measuring his labour input in terms of time ratios, especially retrospectively. In addition one should take into account the fact that the farmer naturally tends to under-assess the amount of work available rather than the other way around, with expectations of Government-sponsored/

Government-sponsored schemes or development projects. Thus it is not surprising that the 1957 enumeration resulted in reporting a smaller working population in the subsistence sector.

Another, equally serious, difference in the two censuses arose because of differences of timing, the 1947 census was taken in September whereas the 1957 census took place in June. In Malaya padi (rice) planting would be in full swing in September whereas in June scarcely any work is done in the fields. In fact, the Superintendent of the Census himself, doubting this decrease in the agricultural working population as a genuine fall, seems to account for this discrepancy between the two censuses wholly in terms of the time difference in census taking. The improbability of a genuine reduction in the agricultural labour force of this magnitude (due perhaps to some new technology) is further strengthened by the fact both the acreage under rice as well as the total production of rice had increased over this period, as shown in Table VI.12.

TABLE VI.11

Changes in the Working  
Population of Malaya 1947-57

INDUSTRY	YEAR		INCREASE	
	1947 (THOUSANDS)	1957	NUMBER ('000)	PER CENT
Agriculture	1,240	1,245	4.3	0.3
(Subsistence)	(471)	(398)	(-73)	(-15)
(Plantation)	(560)	(672)	(112)	(20)
Building & Constrn.	13.5	67.8	54.3	402
Mining	47.7	58.5	10.8	23
Manufactures	126.2	135.7	9.5	7
Public Utilities	4.6	11.6	7.0	152
Commerce	173.1	195.2	22.1	13
Transport & Communications	65.9	74.8	8.9	11.4
Govt. & Business Services	76.7	116.1	39.4	51.4
Personal Services and Entertainment	97.5	104.9	7.4	7.6
Police & Armed Forces	23.4	98.7	75.3	322
Total Working Population	1,875	2,126	251.0	13.3

Source: Population Census of Malaya, 1957.

TABLE VI.12  
Expansion of Rice Production  
in Malaya 1947-57

	Season 1947/48	Season 1957/58
Planted Area (thous. acres)	885	909
Harvested Area " "	845	901
Total Yield (thous. tons)	545	787

Source: Annual Reports of the Federation of Malaya, 1949  
and 1959.

While no satisfactory conclusions can be drawn from a comparison of the two census statistics as regards agricultural employment changes, especially in the subsistence sector, it is clear that the bulk of the increases in employment have been shared almost evenly between the Building and Construction industries on the one hand and the Public Services, where Government is the largest employer. This is a characteristic feature of under-developed countries in the process of their transformation into independent nations, as Malaya was in 1957.

In Malaya this increase in Government employment was accelerated by the 'Emergency', a period of political strife brought about by the communist insurgency during this intercensal period and which is reflected in a 322 per cent increase among the Police and Armed Forces. In the post-independence period, after 1957, this process would have continued in view of the expansion of these services for reasons of national prestige as well as of national security. From Table VI.12, it will be clear that of the 250,000 new workers who entered the working population between 1947 and 1957, almost one-half were absorbed by the Government whereas about one-fifth entered the Building and Construction industry, which is very dependent on Government expenditure on welfare projects and development schemes. This trend would have only been further advanced since 1957 because of concerted Government efforts to induce economic development on a Pan-Malayan basis rather than being confined to the few export-oriented industries alone.

Thus the phenomenon of Government as the chief employment-creator, despite efforts to the contrary,<sup>5</sup> is becoming a built-in feature of the process of economic growth and expansion in Malaya.

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5 Official Government policy has still to face up to this reality and especially the contradictions between the objectives of economic planning and the trends in employment growth. Typical of policy statements is the following. "The soundest most effective and most satisfactory means of expanding job opportunities is through general economic expansion. When employers seek more labour because there is work to do, the new workers are likely to be far more productive than when a government tries to increase jobs by direct measures." Malaysia Interim Review of Development in Malaya under the Second Five Year Plan, Kuala Lumpur, 1963, p.8.

## Chapter VII

Urbanization, Economic Development andOccupational Change.

Economic historians as well as demographers have frequently noted the significant role that urbanization plays in modernising social, political and economic institutions within a country and thus in helping to lay the foundation for further self-sustained economic growth.<sup>1</sup> Indeed, in the experience of the presently developed countries of the world, rapid urban population growth was, like the agricultural revolution which preceded it, a necessary pre-condition of industrialization and economic development.<sup>2</sup>

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1 See Bert F. Hoselitz, "The Role of Cities in the Economic Growth of Underdeveloped Countries," *Journal of Political Economy*, Vol. 61, No.3, (June, 1953).

2 Gideon Sjoberg, "The Origin and Evolution of Cities," *Scientific American*, Sept., 1965; and reprinted in *Cities*, a Penguin book, London, 1967.



As Adam Smith noted, capital accumulation and the growth of an industrial labour force with specialised tasks, led to higher productivity and incomes whose sustained growth was threatened only by restrictions on international trade.<sup>3</sup> But while Smith was correct in emphasising the critical role 'the extent of the market' played in sustaining economic development, he tended to concentrate on the external market and neglected the equally important domestic market. If he had not done so he would no doubt have chanced upon the importance of urbanization as the key factor in the further development of domestic markets. The rapid expansion of international trade is only one aspect of the industrial revolution; the other, equally important, is urbanization.

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3 See *An Inquiry into the True Nature and Causes of the Wealth of Nations*, 1776, (ed. E. Cannan), London, 1961; especially Bk I, Ch. III.

On the supply side, the major constraint on industrialization in the West was the availability of a sufficiently large and permanent industrial labour force. However, this constraint was largely overcome by means of the social and economic changes that revolutionised modes of production in the countryside and led to the large-scale migration of agricultural workers to industrial towns in search of employment.<sup>4</sup> It was only in the harsh environment of the urban-industrial complex that the peasantry was transformed into an industrial labour force, to work under conditions of employment and life that would have been unacceptable to them before. This pattern of urbanization which is closely linked to the structural transformation of an economy in the process of 'take-off,' has to be distinguished from the classical (or pre-industrial) city and its' pattern of development.<sup>5</sup>

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4 See Arthur Birnie, *An Economic History of the British Isles*, London, 1963; especially Chapters XXIII and XXIV, pp. 223-249.

5 Sjobergh, "The Origin and Evolution of Cities," *op. cit.*, p.45.

The modern pattern of urban development owes its origins to the rapid growth of industrial conurbations, of a size hitherto unprecedented in any part of the world, in the countries of North-western Europe in the nineteenth century. This process of urbanization entails a sustained higher rate of growth of the urban population relative to the rural population. Expressed in another way, urbanization means that the urban population as a proportion of the total population in a country should continue to increase until the transformation of a predominantly agricultural society into an industrial society had been completed.<sup>6</sup> Thus urbanization is a transitional and finite process which comes to an end with the decline and final disappearance of the differential in the growth rates of the urban and rural populations. Demographers have indeed represented the full cycle of urbanization by a curve in the shape of an attenuated S.<sup>7</sup>

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6 See Kingsley Davis, "The Urbanization of the Human Population," in *Cities*, a Penguin book, London 1967, pp 16-17.

7 *Ibid*, p.17.

If we start from the bottom, which represents a short period of very slow urban growth, the first bend in the curve comes sharply and is followed by a long attenuation. After a relatively short period of very swift urban growth, the curve begins to flatten out, especially as the proportion of the urban population begins to exceed the 50 per cent level. The most distinctive feature of modern urbanization is therefore its' role as an important factor in the social and economic transformation of pre-industrial societies which enabled them to achieve sustained economic growth. The social and economic transformation which urbanization induced in the economies of the present advanced countries in their early developmental phase was most clearly manifested in the progressive application of technological and scientific knowledge to primary production and the consequent relative (and, ultimately, absolute) decline in the size of the agricultural labour force.<sup>8</sup>

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8 See Carlo M. Cipolla, *The Economic History of World Population*, a Penguin book, London, 1965, pp. 60-65.

Development theorists have been drawn to the subject of urbanization in under developed countries mainly because of their belief that they represented "crucial places in under developed countries in which the adaptation to new ways, new technologies, new consumption and production patterns, and new social institutions is achieved."<sup>9</sup> Another factor of importance is the high rate of growth of the urban populations in under developed countries, which has everywhere outstripped anything experienced by the industrialising European countries in the nineteenth century. Several studies made on this high rate of urban growth in under developed countries have tended to the conclusion that 'over-urbanization' in these countries has led to major social and economic problems which hamper further economic growth.<sup>10</sup>

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9 Hoselitz, op. cit., p. 195.

10 See especially, Kingsley Davis and Hilda H. Golden, "Urbanization and the Development of Pre-Industrial Areas," *Economic Development and Cultural Change*, Vol. III, No. 1, (Oct., 1954).

The concept of 'over-urbanization' helps to emphasise the lack of balance between the growth of the urban population on the one hand and the growth of new urban employment opportunities on the other. In other words, urbanization in under developed countries is not exclusively or even primarily a function of industrialization and greater specialization in production as it was in nineteenth century Europe. A host of social and political factors dominate this process in which the push-effects of a disintegrating and conservative countryside have to be stressed as much as the economic and non-economic attractions of the city.<sup>11</sup>

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contd. and United Nations, Urbanization in Asia and the Far East, Proceedings of the Joint U.N./U.N.E.S.C.O. Seminar, Bangkok, Aug., 1956.

11 Bert F. Hoselitz, "The City, the Factory and Economic Growth," American Economic Review, Proceedings, May, 1955.

One must, however, distinguish between the process we have technically referred to as urbanization and the absolute growth in size of cities in under-developed countries. Urbanization is the increase in the proportion of the urban population, that is, it is an improvement of the urban to total population ratio. On the other hand, the absolute growth in the urban population, if it did not involve a rural - urban migration, may be the result of natural increase alone.

Thus in the absence of migration from the rural areas and assuming the rates of natural increase of the population are the same in urban and rural areas, there can be no urbanization, although a high growth rate of the urban population may be experienced.<sup>12</sup> Such a growth rate of the urban population will tend to be far smaller than the European growth rates in the last century because the latter also involved rural-urban migration.

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12 Davis, "Urbanization of the Human Population,"  
op. cit., p. 24.

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12 Davis, "Urbanization of the Human Population,"  
op. cit., p. 24.



But in fact, as Kingsley Davis found, today's under developed countries are urbanizing not only more rapidly than industrial nations are now doing, but also more rapidly than industrial nations did in the heyday of their rapid growth.<sup>13</sup> It was found in a representative selection of forty under developed countries that the average gain in the proportion of the urban population was 20 per cent per decade whereas the average for sixteen industrial countries during their most rapid urbanization period in the nineteenth century was 15 per cent. In addition, the average annual increase in the urban population of some under developed countries was 4.5 per cent whereas among European urban populations in the latter half of the last century (when growth was most rapid) the average annual increase was only 2.1 per cent. It will therefore be observed that the contrast between today's under developed countries and yesterday's industrializing countries is sharper with respect to absolute urban population than with respect to the urban share of the total population.

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<sup>13</sup> Ibid., pp 24-25.

This difference is to be explained by the much higher overall growth rates of the population in under developed countries today. Thus a greater part of the high urban growth rates in these countries can be explained by natural increase rather than by urbanization per se, a reversal of the situation that obtained in yesterday's industrialising countries. Taking Costa Rica and Mexico as examples of under developed countries, Davis found<sup>14</sup> that only about 20 per cent of the growth in the urban population could be ascribed to urbanization per se; and that between 45-50 per cent of the growth was directly attributable to the national or general growth rate of the population. In contrast, both in Switzerland and in France during the late nineteenth century only about 20 per cent of the growth in urban population was attributable to the growth of the aggregate populations, whereas between 60-70 per cent of urban growth was accounted for by rural - urban migration.

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14 Ibid., pp. 26-27.

Using Davis' methodology for Malaya we found that 57 per cent of urban growth was accounted for by internal migration and that only 29 per cent of the growth was due to the overall growth of the population. Such a result would appear to place Malayan experience closer to that of the industrialising European countries in the last century rather than to those of the contemporary under developed nations of the world. But such a conclusion would be quite misleading and the discrepancy is entirely due to the very low urban 'threshold' applied by census statisticians in Malaya. The urban population have been enumerated on the basis of a minimum community of 1,000 persons living in an area which had been officially gazetted as such. It is therefore not surprising that the Malayan 'urban' population has included population living in small towns and some large villages. In addition, the fact that the dual economy evolved on the basis of immigrant labour has had a lasting effect on the pattern and ethnic composition of urban growth in Malaya.<sup>15</sup>

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15 J.C. Caldwell, "Urban Growth in Malaya: Trends and Implications," Population Review, Vol. 7, No.2, 1963.

A closer examination of the main characteristics of urban growth in Malaya in recent years is therefore required in order to assess its' effects on the labour force and its' potential for economic development.

The origins of Malayan urban development can be traced back to the pockets of immigrant Chinese settlement that had been tentatively established in the hinterland of three of the West coast states, Perak, Selangor and Sungai Ujong (later, Negri Sembilan) by the mid nineteenth century. Under agreements with the Malay rulers of these states, the extraction and processing of tin ore by Chinese immigrants had been confined to specific areas in which the duty of maintaining law and order was given to the chief mining concessionaire. These mining settlements naturally constituted larger aggregations of population and contrasted sharply with the rest of the country with its' dispersed and thinly-populated villages.<sup>16</sup>

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16 Eunice Cooper, "Urbanization in Malaya,"  
Population Studies, May, 1954.

Already at this time some of these settlements had a primitive shopping or market place developed that supplied the essential imports of food, tobacco and drinks to the labour force and traded in some of the luxuries demanded by the Malay aristocracy. These settlements could undoubtedly have rapidly developed into urban centres in this period had it not been for the frequent lawlessness that resulted in temporary closures of these settlements for varying periods. It is significant, therefore, that after 1874 when the British had intervened to establish law and order in these states they chose these very settlement areas as their administrative centres in each of the states.<sup>17</sup>

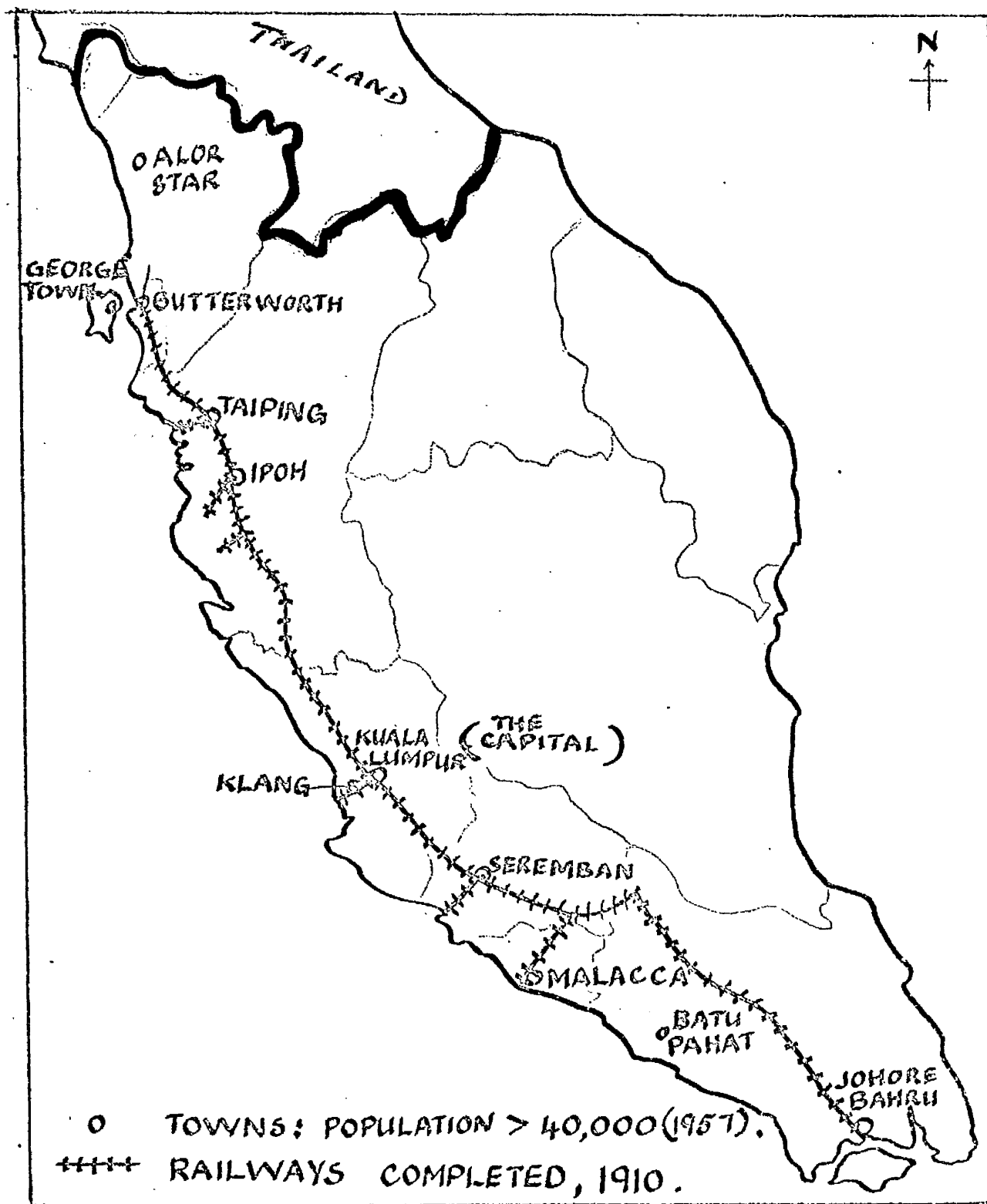
The first significant development of British rule in the Western Malay States as regards population settlement or distribution was that it further strengthened the original pattern.

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17 E.M. Smith, *Population Growth in Malaya*, London, 1960.

Fig. 2

## RAILWAY DEVELOPMENT AND URBANIZATION IN MALAYA



Under more favourable political and economic conditions these immigrant settlements grew with an astonishingly rapid rate as they attracted fresh-immigrants in larger numbers. Under the more stable British administration there were few obstacles in the way of those who wished to undertake tin mining. But the second, and more permanent, effect of British rule on Malayan urban growth is due to the establishment of the basic railway network in the decade 1885-1895. Not only the extent but also the rapidity of Malayan railway development in this early period is wholly attributable to tin mining in Malaya; "the extraction and removal of tin together providing both the original raison d'etre of the railways and, by means of export duties levied by the state governments, the funds where with to pay for them."<sup>18</sup>

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<sup>18</sup> An excellent discussion of the impact of railway development on the pattern of economic progress and the distribution of the immigrant population is found in C.A. Fisher, "The Railway Geography of British Malaya," Scottish Geographical Magazine Vol. LXIV, No. 3, (1948).

Thus, in the space of a decade, was established the basic communications pattern of Malaya, consisting of a series of short overland routes from the mining hinterland to the Western ports, there linking up with the older Straits shipping lines connecting the entrepot centres of Penang and Singapore. Before the end of the nineteenth century, the established railway system had so greatly increased the mobility of tin-prospectors and the extent of mining operations in the hinterland that new lines had to be constructed. One of the less - well-known factors that led to the creation of the Federated Malay States in 1896 was the need for co-ordinating railway construction and practice in the states concerned (excluding, of course, the East coast state of Pahang. And thirdly, the development of large-scale plantation agriculture in Malaya due to the introduction of rubber in the first decade of the present century expedited railway construction so that at the end of 1910 the railway communications system in the West coast states of Malaya was substantially the same as what it is today.<sup>19</sup>

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<sup>19</sup> Ibid.



This period of rapid expansion of plantation agriculture and development of railway communication was a period of growing Government revenue surpluses which encouraged an unprecedented expansion in the size of the administrative machinery. In large measure this expansion in Government employment is attributable to the principle of 'indirect rule' by which the Federated Malay States continued to be formally governed. Consequently, there was considerable duplication of Federal (central) Government posts at State level. But more important was Government's eagerness to modernise transport and communications and other public services in order to attract more foreign capital investments into the country. Expenditure on the social services and on agricultural research increased considerably in the aftermath of World War I in order to alleviate the hardships experienced by the people of a dependent economy. The remarkable fact was that the Government could sustain such a vast expansion in the public services and yet continue to accumulate revenue surpluses.

The revenues of the Federated Malay States had increased from S8.4 million in 1896 to a peak of S105.4 million in 1927 and its' exports had increased from S28 million in 1896 to a peak of S446 million in 1926. In a period during which the population increased, roughly, threefold due, chiefly, to immigration, federal revenues and export trade had risen twelve or thirteen fold.<sup>20</sup> There can be no doubt, however, that tin mining and rubber production, together with their ancillary trades and businesses accounted for the bulk of this revenue. From 1909 to 1929, the export duty on tin realised S250 million and that on rubber S76 million and a rough estimate of the national income of the Federated Malay States in 1931 ascribed a little more than two-thirds of it directly to the production of rubber and tin.<sup>21</sup>

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20 Rupert Emerson, *Malaysia; A Study in Direct and Indirect Rule*, (Kuala Lumpur: 1964), pp. 153-160.

21 Report of the Federation Malay States Retrenchment Commission (1932), (Kuala Lumpur: 1933).

It would therefore not appear very remarkable that over three-quarters of the cost of railway construction was financed from the Government revenue account.<sup>22</sup> It was only at the height of the Crisis of the 1930's that the Government became aware that it had been saddled with a top-heavy administration. It is a remarkable reflection on the insidious growth of bureaucracy that when rationalization of the Administration was introduced between 1930 and 1933, the Government found that it could lay off 17 per cent of the staff with no apparent loss of efficiency and at the tremendous saving of 26 per cent in cost.

It is against this background of economic and political developments that the process of urbanization in Malaya can be understood. What originally began as concentrations of population engaged in tin mining began, after the establishment of the basic Malayan railway network, to expand into larger settlements catering to the needs of commodity exports and also serving as distribution points for immigrant labour as well as imported merchandise.

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22 L.A. Mills, *British Rule in Eastern Asia*, London, 1942, p. 153.

These developments were reinforced by the subsequent growth of a complex administrative machinery whose decentralised functions were dictated by the political principle of 'indirect rule' by which the Malay States were officially governed. The conspicuous absence of a 'primate-city' type of urbanization in Malaya, a common characteristic of other under developed countries,<sup>23</sup> may largely be attributed to this aspect of British rule in Malaya. It is significant to note, however, that despite the dispersed character of Malay-  
an urban growth, urbanization had, as will be shown on the next page, accentuated the characteristics of a dual society rather than obviated them. In the following discussion of urban growth in Malaya we shall exclude Singapore not only because the present study is confined to the special aspects of a dual economy as it evolved in the Malayan mainland but also because Singapore had from its' foundation exhibited the characteristics of a free-trade entrepot economy that was based on its' strategic control of maritime trade.

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23 B.F. Hoselitz, "Generative and Parasitic Cities,"  
Economic Development and Cultural Change, Vol. 3,  
No. 3, Apr. 1955.

Singapore's economy, like that of Hong Kong, established a pattern and momentum of economic growth, based on regional trade rather than on any particular export economy. The evolution of this type of an economy may well prove interesting as a separate study; but its inclusion here would merely distort the salient features of the pattern of urbanization in Malaya.

TABLE VII.1

## Urbanization in Singapore, 1911-1957

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Census	1911	1921	1931	1947	1957
Urban Percentage	85	83	80	80	82

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Source: Population Census of Malaya, 1931, 1947 and 1957.

As in other facets of economic growth in the Malay Peninsula, urban growth has been clearly marked by the dualistic pattern of development. The account of the growth of export industries and especially of the extension of administrative machinery and the railway network, given earlier, would clearly indicate that the process of modernisation came to be concentrated on the west coast states of the Peninsula, especially in the Straits Settlements and the Federated Malay/

Malay States. Immigrant Chinese and Indian labour that was recruited to work in the tin mines and rubber plantations gave these states distinctive demographic characteristics which distinguished them from the other Malay states. For historical reasons, discussed in Chapter One, and more significantly, due to the extension of the railway network through the state, Johore had acquired the characteristics of the Federated States early in the present century although it remained outside direct British political control. In order to show more significantly the differential pattern of urban development we may distinguish those states which largely maintained their indigenous subsistence economy from the west coast states whose economies were by the first decade of this century dominated by the mining and plantation industries. The terms New and Old Malaya may be aptly used to describe these regional differences not only because, as O.A. Vlieland showed, they represent accurately the differences in the impact of immigration upon the demographic structure of the territory but also because they indicate the extent to which modern production and the monetized/

monetized market economy had penetrated these states.

In Tables VII.2 and VII.3 are presented the distribution of the total and the urban populations of Malaya according to their regional composition. Although the census statistics for the whole of Malaya go back only as far as 1911, it is clear from Table VII.2 that Old Malaya began with a smaller total population than New Malaya, which had been receiving immigrants in increasing numbers since the establishment of British rule. But of greater significance is the small size of the urban population in Old Malaya, a reflection of the dispersed riverine settlement patterns of the Malay agricultural communities. Thus only 43,000 in this region were found in 1911 to live in concentrations of one thousand persons and above. The size of the urban population in New Malaya in 1911 was almost nine times as numerous although the aggregate population was only twice as numerous as that of Old Malaya. One may therefore expect to find a higher degree of urbanization in New Malaya which had been more systematically opened up to international trade and commercial agricultural and mining activity.

This is borne out by data presented in Table VII.4, which shows that in 1911, urbanization in New Malaya was more than four times as high as in Old Malaya.



Table VII.2

Total and Urban Populations, Malaya, 1911-57

(in thousands)

Region	1911	1921	1931	1947	1957
Total Urban	Total	Total	Total	Total	Total
New Malaya	1,501	351 1,919	505 2,558	718 3,357	1,094 4,389
Old Malaya	838	43 988	64 1,201	111 1,549	204 1,890
Total Malaya	2,339	394 2,907	569 3,786	829 4,908	1,301 6,279
					2,668

Source: Population Census Reports, 1931, 1947 and 1957.

Table VII.3

Percentage Distribution of Total and Urban  
Populations of Malaya, 1911-57

Region	1911	19	21	1931	1947	1957
Total Urban	Total	Total	Total	Total	Total	Total
New Malaya	64	89	66	88	68	86
Old Malaya	36	11	34	12	32	14
Total, Malaya	100	100	100	100	100	100

Source: Population Census Reports, 1931, 1947 and 1957

From the 1911 to the 1957 census, over a period of 46 years, the regional distribution of the aggregate and urban populations have moved in opposite directions. As shown in Table VII.3, New Malaya's share of the total population increased steadily from 64 per cent in 1911 to 70 per cent in 1957. This increase is particularly marked in the 1947 and 1957 censuses. For reasons we have discussed at length in Chapter VI, the immigrant labour force which was concentrated in New Malaya, had acquired the characteristics of a settled population after World War II. The marked improvement in the sex ratios of the immigrant communities brought about by Government control of immigration after the Great Depression would account for the relatively larger gains in the aggregate population of New Malaya in the forties and fifties. But in contrast, New Malaya's share of the urban population declined steadily from 89 per cent in 1911 to 70 per cent in 1957 while, correspondingly, Old Malaya showed a steady increase from 11 per cent in 1911 to 19 per cent of the total urban population in 1957.

The explanation for this gain in the share of Old Malaya in the total urban population is chiefly to be found in the fact that it was only after the second decade of this century that the British Colonial administration in the Straits Settlements began to exert a greater influence on these conservative and economically backward sultanates, especially by introducing fiscal and treasury reforms and by restricting the financial interest of the rulers in the treasury revenue. Thus we find the urban population of Old Malaya, having started with a small urban population (43,000) in 1911, almost doubling itself in the decennial period 1921-31. However, even in Old Malaya urban growth was a consequence of the settlement patterns of immigrant populations rather than a significant structural change of the traditional indigenous economy and involving a rural-urban migration of the local population. Thus although, as shown in Table , the relative strength of Old Malaya's urban population had increased steadily over the years while that of New Malaya had declined, we shall observe that urbanization as such had advanced more rapidly in New Malaya.

This aspect of urban growth is shown in Table VII.4. The ratio of the urban population to the total in New Malaya had increased from 23 per cent to 49 per cent, or by 26 per centage points. During the same period the ratio had increased by only 21 percentage points in Old Malaya. Even this increase in the urban ratio of Old Malaya was concentrated within the decennial period 1947-57. Thus both in 1911 and 1921, urbanization in Old Malaya had proceeded to less than one-fourth of its' extent in New Malaya. Even the first post-war census of 1947 revealed that urbanization had proceeded less than half as far as in New Malaya, a reflection of the greater impact that the immigrant labour force had had on New Malaya. Although in absolute numbers the urban population of Old Malaya had increased almost twelve-fold between 1911 and 1957, the ratio of the urban population had increased by only 21 percentage points.

Table VII.4

Ratios (in Percentages) of Urban  
to Total Population, 1911-57

<u>Region</u>	<u>1911</u>	<u>1921</u>	<u>1931</u>	<u>1947</u>	<u>1957</u>
New Malaya	23	26	28	33	49
Old Malaya	5	6	9	14	26
Malaya	17	19	22	26	42

Source: Population Census Reports, 1931, 1947  
and 1957.

The predominant influence of immigration in urban growth in Malaya reflects not only on the employment objectives of the immigrant labour force and their concentration as employees in the new export industries but also on the nature of the indigenous Malay community and its' preoccupation with subsistence agriculture. Thus the proportions of urban population within each ethnic group will provide an approximate indication of the extent to which each of these groups was drawn into non-subsistence modes of production. This information is presented in Table VII.5.

Table VII.5

Indices of Urbanization, by Ethnic Group, 1931-57.  
(percentages)

Region	Malay			Chinese			Indian		
	1931	1947	1957	1931	1947	1957	1931	1947	1957
New Malaya	12	14	20	41	45	73	26	34	41
Old Malaya	6	9	17	24	36	63	25	35	45
Malaya	8	11	19	39	43	69	26	34	41

Source: Population Census Reports, 1931, 1947 and 1957.

Taking the indigenous Malay community we find that in 1931, for the whole Malay Peninsula, only 8 persons out of every hundred were living in urban areas, that is with population concentrations of 1,000 or more. But this average was made up of two quite different figures because we find that in New Malaya this community had reached a higher degree of urbanization (12 per cent) than in Old Malaya. But subsequent censuses show that this difference was being eliminated so that by 1957 in both regions the Malay community had reached about the same degree of urbanization, with only a slight/

slight advantage for those in New Malaya. Throughout Malaya and especially in New Malaya we find higher indices of urban concentration among the immigrant groups to which both Chinese and Indians belong. This is very clear from the Chinese indices of urban concentration. But the percentages of the Indian population concentrated in urban areas does not show a clear division between New and Old Malaya. This is chiefly attributable to the fact that Indians were overwhelmingly concentrated in rubber plantations, which were more important in New Malaya than in Old Malaya. Thus although the Indian urban population in New Malaya was in absolute terms far larger than that of Old Malaya, their ratios were pulled down by the larger Indian agricultural labour force in the region.

We have hitherto been able to show at some length the dualistic structure inherent in the pattern of urban development in Malaya, especially by means of regional analysis which differentiated those states which had come under more or less direct British administration at the turn of the century from the others.



In so far as these historical developments coincided with the pattern of foreign investments and immigrant labour being concentrated in those states which modernised earlier, we have noted that urbanization in Malaya had been of greater significance to the Indian and Chinese communities than to the indigenous Malay community, especially those in what has been termed Old Malaya. The uneven impact of urbanization on the diverse peoples of Malaya may also be illustrated through a comparison between the ethnic composition of the aggregate and urban populations. This is shown in Table VII-6.

Table VII.6

## Ethnic Composition of the Total and Urban Populations.

(percentages)

Population	1931	1947	1957						
Malay Chinese Indian Malay Chinese Indian									
Urban	20	60	19	22	62	15	23	64	12
Total	50	34	15	50	38	11	50	38	11

Source: Population Census Reports, 1931, 1947 and 1957.

It will be seen that throughout the years the immigrant populations have maintained a far higher ratio of the urban population than their share of the total population of Malaya represented. This is especially so of the Chinese community who had originally been predominant in the tin industry but who had since the decline of employment in that industry found alternative sources of livelihood in trade and commerce but mainly as casual workers in a variety of trades centred on the towns of Malaya. Although from the turn of the century Indian workers had been recruited specifically to work in rubber plantations and therefore would have been predominantly non-urban in character, we note that throughout their proportion in the urban population was higher than their share of the total. A major reason for this high degree of urbanization among the immigrant communities even at an early stage of Malayan economic development was the ethnically compartmentalised commodity markets that became established to satisfy the highly culture-specific needs of the various communities.

Although in our discussions we have for convenience grouped the peoples of Malaya into three major ethnic categories, because they help to identify the major economic characteristics of the population and the industrial structure of the labour force, in cultural, religious and caste or clan terms, their diversity was great. A large proportion of the immigrant population would tend to be urban and to engage in more profitable occupations catering to the specific needs of a polyglot and tradition-bound population. An equally important factor in establishing high urban ratios among the immigrant population was their high geographic mobility. Thus until the stabilising effects of the Government restrictions on immigration imposed after the Great Depression and the geographical isolation imposed by the Japanese military occupation during World War II, the immigrant labour force was almost constantly on the move, especially between the mine or plantation in Malaya and their country of origin. The towns of Malaya which formed a linear pattern along the west coast belt of Malaya were linked to the basic sea routes leading into the country and the railway network in the hinterland.

The transport system carried not only the raw material exports and the imported merchandise but also helped to distribute the immigrant labour force among the various states and employers. The towns which formed natural distribution points as well as strategic junctions in the transport network were convenient for the build up of pools of unemployed labour. In demographic terms this process of migrant labour becoming stuck to certain important points in the transportation network has been called 'population-clotting', and was regarded by the 1947 Census as a factor of considerable importance in Malayan urban growth.<sup>24</sup> The social and economic changes that resulted from the introduction of a modern administration and specialised production for exports were therefore the main reason why Malays form "the only ethnic group whose proportion of the urban population is less than its' component of the total population."<sup>25</sup>

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24 Report of the Census of Malaya, 1947, p. 44.

25 Cooper, Urbanization in Malaya, op. cit., p. 123.

It must however be emphasised that despite ethnic and regional differences the rate of urbanization had been considerable for the country as a whole, especially in the post-war years. But it must be realised that such high proportions of the urban population are in fact a product of the rather low concentration of the population (1,000 persons and above) used as the criterion for their enumeration. Those responsible for the different Malayan censuses have justified the rather low urban threshold that were used on the grounds that urbanization in primary - producing countries has to be treated in a different conceptual framework than the urban growth of the industrialised countries. Indeed the basis adopted by the Malayan census authorities have enabled us to show remarkably well the uneven impact of modernisation brought about by an export-oriented market economy, especially between the indigenous and immigrant communities. But Malayan statistics on urbanization do not provide a valid basis for international comparisons even with other under developed or developing countries in Asia.

It is therefore misleading to claim that Malaya has achieved one of the highest rates of urbanization in Asia, placing her second only to Japan in Asia.<sup>26</sup> If we take as urban only conurbations of 10,000 persons and above, a more realistic basis for international comparisons, we will find that urbanization in Malaya has been of more modest proportions. This is shown in Table VII.7

Table VII.7

Urbanization in Malaya, based on  
Two Different Criteria

Criteria	(percentages of urban population)				
	1911	1921	1931	1947	1957
1,000 Persons and above	17.2	19.1	22.1	26.5	42.5
10,000 Persons and above	10.7	14.0	15.1	15.9	26.5

Source: Population Census Reports, 1931, 1947 and 1957.

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26 Such uncritical statements tend to crop up not only in Government publications but also in

Thus on the assumption of a higher urban threshold, we find that in 1911 only one in ten persons in Malaya was living in an urban environment and that by 1957 this proportion had merely increased to slightly more than two in ten. This represents about half the rate of urbanization suggested by the use of conventional Malayan urban statistics, which lead to misleading conclusions about relative economic progress in Malaya in international comparative studies.

An important explanation for the great concern shown for the problems of urban growth in under developed countries is the far higher rate of growth of this population compared to the rate of growth of the total population. In Malaya, for instance, the general growth rate of the population in the period 1947-57 was 2.8 per cent per annum. At the same time the conventionally - defined urban population increased at the rate of 10 per cent per annum.

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contd. academic studies of urban growth in Malaya.

See, for example, Hamzah Sendut, "Patterns of Urbanization in Malaya," *Journal of Tropical Geography*, Vol. 15, (Oct. 1962) and also Kernal Singh Sandhu, "The Population of Malaya: Some Changes in the Pattern of Distribution between 1947 and 1957,"



However, using our more restrictive definition of the urban population so as to include only concentrations of 10,000 persons and above, we find that the growth rate was 8.1 per cent per annum. Even urban growth rates of such high magnitude do not necessarily indicate that urbanization is proceeding at maximum potential rates. The crucial factor is not the rate of growth in the size of the urban population, although it may have some influence on it, but the rate of change in the proportion of the population urban. As Table VII.7 shows in the most recent intercensal period, 1947-57, the ratio of the urban population (10,000 persons and above) rose from 15.9 per cent to 26.5 per cent - representing a rate of change in the proportion of the population urban of 10.6 per cent per decade. In under developed countries generally, Kingsley Davis found that the rate of change in the proportion of the population urban was in the region of 20 per cent per decade. In a group of 16 industrial countries during the late nineteenth century (at the time of their most rapid urbanization) the rate of change was 15 per cent per decade.

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contd. Journal of Tropical Geography, Vol. 15. (June, 1961).

Therefore, the argument that urbanization in Malaya is proceeding at a very rapid rate and involves revolutionary social and economic changes is difficult to maintain. Indeed the most rapid changes in urbanization took place in the immediate post-war years 1947 - 1957 and were due to political and administrative regulations imposed upon the country by the widespread political insurgency. Whether we use the census definition or a more restrictive one of the urban population we may observe from Table VII.8 that the annual growth rate in the post-war period was more than double that of the earlier one.

Table VII.8

Growth Rates of the Urban Population  
based on two Different Criteria

<u>Criteria</u>	<u>(thousands)</u>			<u>(percentages)</u> <u>Annual Increase</u>	
	1931	1947	1957	1931-47	1947-57
1,000 Persons and Above	835.9	1,301.4	2,668.0	3.5	10.1
10,000 Persons and Above	601.7	918.3	1,666.3	3.3	8.1

Source: Population Census Reports, 1931, 1947 and 1957.

The greater part of this difference is accounted for by the Resettlement Plan introduced by the Government during this period to combat communist influence among the Malayan population, especially the Chinese. As these measures were directed at widely scattered Chinese populations in the non-urban areas who could not be easily policed, the Resettlement Plan in fact brought about a forced rural - urban migration on a large scale. It involved almost one-tenth of the total Malayan population (mainly Chinese) and in the process of Resettlement created about 70 new towns with populations of more than 2,000 each. But the Government was aware that in effecting a successful Resettlement scheme, they had to take into account the employment opportunities in the new areas of settlement. Hence in the majority of cases these new settlements (officially called New Villages) were sited near rubber plantations so that there would be opportunities for the resettled population to find new employment. In cases where the New Villages were too far from rubber plantations transport was provided either by the Government or the employers, so that the major goal of Resettlement, namely the strict supervision of population movements, could be achieved.

In addition, the population transferred to New Villages were provided some land so that they could pursue their old occupations of vegetable farming and animal husbandry. We may observe from Table VII.8 that the larger urban centres with populations of 10,000 and over grew at 8.1 per cent per annum whereas the total urban population (by the census definition of 1,000 persons and above) grew by 10.1 per cent per annum. This clearly indicates that the smaller towns and village settlements (many of them newly created under the Resettlement Plan) experienced much higher growth rates than the larger towns during this period. Thus we can find little justification for the view that post-war urbanization has transformed the traditional economic structure of the country in any significant way.<sup>27</sup> To a considerable extent it has been urbanization only in a nominal sense, as it has merely re-grouped agricultural populations in more compact groups for the sake of administrative convenience without producing any major changes in the economic characteristics of these populations.

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<sup>27</sup> See, for example E.H.G. Dobby, "Resettlement

It would therefore appear that the increasing concern shown by demographers and economists in the problem of 'over - urbanization' in under developed countries tends in the long run to become counter-productive. Sustained urbanization in a settled population is an inevitable consequence of economic growth and the shift of the labour force from predominantly agricultural and traditional to industrial and modern service occupations. The concept of 'over-urbanization,' which in any case is a contradiction in terms in a historical sense, would appear to hinder rather than help the understanding of the economic and social processes involved in economic development. In fact as Davis has noted the problem of under developed countries is that the high rates of urban growth generally observed owes less to rural - urban migration than to high general growth rates of the total population.

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contd. Transforms Malaya," Economic Development and Cultural Change, Oct., 1952.

Thus the problem of 'over-urbanization' is only another aspect of the general problem of population growth in under developed countries which Leibenstein has observed to be running at a rate approximating the biological maximum. The population of Malaya in 1957 stood at about 6.3 million having increased from 4.9 million in 1947, at an annual growth rate of 2.8 per cent. The ratios of the population urban (taking only areas with populations of 10,000 and over) were in 1947 and 1957, 15.9 and 26.5 respectively. We may arrive at an approximation to the actual rural-urban migration (statistics for which are not available) by eliminating the influence of the general growth rate upon the urban population. Thus if the general growth rate of the population was zero the urban population in 1957 would have been 1.3 million instead of 1.7 million which it was in fact. In the same way we may eliminate the influence of rural - urban migration, if any, by assuming that the 1957 urban population was solely due to the 1947 figure increasing at 2.8 per cent per annum (the general growth rate of the population). Such a computation would give the 1957 urban population as 1.2 million instead of what in fact it was.

We are thus able to show that the urban population of Malaya (10,000 persons and above) rose by 81.4 per cent in the decade 1947-57; but about 35 per cent of this growth was due to natural increase of the urban population alone and about 50 per cent of that growth was due to rural - urban migration. The remainder being attributable to both causes as well as to other residual factors. Although such a pattern of urbanization would appear to resemble the nineteenth century - growth patterns of the European countries rather than the present under developed world where Davis noted that rural - urban migration was relatively insignificant, we must caution against the use of these estimates without qualification. A considerable part of this migration must have resulted from Government decree prohibiting persons to live and farm in 'black' areas where political insurgency was found to be concentrated.

The prosecution of military and police operations as well as civil administration during the Emergency brought about a vast expansion in the scale of Government employment which also brought about voluntary shifts of rural populations to urban areas.

But often these new employments were of a temporary nature and resulted in migration in the reverse direction especially as the Government encouraged such a move as in the case of the resettlement of discharged police constables on land provided by the Government.



The increasing complexity of planning urban growth and development have even in the advanced economies of the world produced a reaction against further urbanization. But these reactions have been mainly based on aesthetic and social rather than purely economic grounds. But as Prof. D.J. Robertson has observed, such adverse reactions to urbanization have obviously ignored the inevitable inclination of economic activity to locate itself in or around centres of population.<sup>28</sup> In under developed countries, on the other hand, economic considerations have been uppermost in the minds of planners and governments in adopting various measures whose basic aim has been to discharge rural-urban migration.

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28 R. Grieve and D.J. Robertson, *The City and the Region*, University of Glasgow Social and Economic Studies Occasional Paper No. 2, Edinburgh, 1964, p. 8.

In Malaya during the past decade an ever increasing proportion of developmental expenditure under the different Five Year Plans have been devoted to modernising rural infrastructure so that the mainly Malay agricultural population could enjoy basic utility, educational and health services similar to those available to the urban population.<sup>29</sup> Such programmes have been implemented without any consideration of the absorptive capacity of dispersed rural populations for such services and without due regard to the limited scope for the expansion of a diversified structure of employment in rural areas. Part of the explanation for this type of reaction lies in the ethnic composition of the urban population, which is predominantly Chinese. But the fundamental reason for the adoption of a programme which can only be described as 'pseudo - urbanization' lies in the fact that the Government planners have so far failed to grasp the long-term prospect of declining productivity and income unless agricultural under-employment is reduced substantially through rural-urban/

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29 These problems are discussed more fully in the next chapter *X*.

rural-urban migration.<sup>30</sup>

As we have observed earlier, urban growth in Malaya (in contrast to the industrially advanced countries of the world) was directly related to the expansion of primary industries, namely tin mining and rubber plantations and the development of modern administration and communications network as by-products of specialisation in production for export. If, therefore, we were to take the pattern of economic development in the West as our standard we may expect to find that urbanization in dual economies such as Malaya has not produced a comparable diversification in the occupational structure of the labour force. The heavy concentration of the labour force in primary industries, especially agriculture is a characteristic of under developed countries generally and is chiefly attributable to lack of complementary factors of production especially capital and entrepreneurship.<sup>31</sup>

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30 See Wilbert E. Moore, *Industrialization and Labour*, New York, 1951.

31 Werner Baer and Michael B.A. Herve, "Employment and Industrialization in Developing Countries," *Quarterly Journal of Economics*, Feb., 1966.

If the process of urbanization is to be realistically related to occupational change in these territories it would only help to emphasise the urgency of the problems of providing alternative employment to agriculture rather than to indicate any trends towards 'over-urbanization.'<sup>32</sup> The rapid expansion of the urban population is to be welcomed rather than discouraged as it would necessarily involve significant social changes favourable to the structuring of an industrial labour force.<sup>33</sup>

The uneven impact of urbanization on the Malayan population, by communities, is clearly reflected in the relative size of the employee category in the labour force. Thus while employees constitute about 58 per cent of the total labour force, among Malay workers this category accounted for only 37 per cent while among Chinese and Indian workers it was 68 and 89 per cent respectively.

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32 See Davis and Golden, op. cit.

33 See Wilbert E. Moore and Arnold S. Feldman (eds.) *Labour Commitment and Social Change in Developing Areas*, New York, 1960.

The very high proportion of wage labour among Indians is accounted by their concentration in the rubber plantations whereas among Chinese a significantly larger proportion were found in self-employed occupations especially in commerce and in small - scale industries. Among Malays, however, the bulk of the labour force of over 60 per cent constituted self-employed and unpaid family workers in predominantly agricultural occupations. The Malay community in the country had not only the lowest proportion of urban population but also the lowest ratio of employees in the labour force.

TABLE VII.9

Percentage Distribution of the Labour Force by Ethnic Group and according to Employment Status

<u>Employment Status</u>	<u>Total Malay Chinese Indian</u>			
Self-employed	33	49	28	10
Unpaid Family Workers	9	14	4	1
<u>Employees</u>	<u>58</u>	<u>37</u>	<u>68</u>	<u>89</u>
Total Labour Force	100	100	100	100

Source: Malayan Census, 1957.

The heavy concentration of the predominantly agricultural Malay community in subsistence production will be seen more clearly by an analysis of the ethnic composition of the different categories of labour. It will be observed from Table VII.10 that Malay workers represented 66 per cent of the self-employed group and 81 per cent of the unpaid family workers in the country.

TABLE VII.10

Percentage Distribution of the Labour Force by  
Employment Status and According to Ethnic Group

Employment Status	Malay	Chinese	Indian	Total
Self-employed	66	29	5	100
Unpaid Family Workers	81	17	2	100
Employees	30	42	28	100

Source: Malayan Census, 1957.

In contrast to their share of the total population of the country of 50 per cent, among the employee category of the labour force the Malay proportion was only 30 per cent. The proportions of Chinese and Indian workers in the employee category of the labour force, 42 and 28 per cent respectively were therefore higher than their respective shares of the total population.

The characteristic features of the development of the dual economy in Malaya as well as the pattern of urban growth has, for reasons we have already examined in earlier chapters, tended to favour the immigrant population in modern employment.

Economists have often attempted to show the close relationship between different stages of economic development and the occupational distribution of the labour force in an economy. Occupational structure of the labour force which has been found useful for such comparative studies, especially as used by Colin Clark, among others, has been broadly defined to follow the industrial grouping of the labour force, which are often the only census statistics available for most countries<sup>34</sup>

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34 See Colin Clark, *The Conditions of Economic Progress*, London, 1951, especially Chapter IX; and A.G.B. Fisher, "Primary, Secondary and Tertiary Production," *Economic Record*, June, 1939.

These studies have shown that countries that have undergone economic development have invariably reduced the proportion of the labour force engaged in primary industries (agriculture, fishing and mining) in favour of secondary (manufacturing, building and construction) and tertiary (or residual service) industries. In Malaya census statistics that enable us to study such structural changes in the labour force go back only to the 1931 census. We have tabulated these data below in Table VII.11. It will be observed that the bulk of the labour force is still entrenched in primary production, especially agriculture, although the proportion has significantly dropped from 67 per cent in 1947 to 61 per cent in 1957.



TABLE VII.11

Percentage Distribution of the Labour Force  
by Industry 1931, 1947 and 1957

Industry	1931	1947	1957
Primary Industry (Fishing, Agriculture Mining)	66	67	61
SECONDARY INDUSTRY (Manufacturing, Building and Construction)	6	7	9
TERTIARY INDUSTRY - I (Commerce, Transport, Communications)	12	12	13
TERTIARY INDUSTRY - II (Public Administration, Police and Armed Forces)	2	5	12
TERTIARY INDUSTRY - III (Entertainment, Personal and other Residual Services)	14	9	5
Total Labour Force	100	100	100

Source: Malayan Censuses, 1931, 1947, 1957.

However, it is likely, as noted in Chapter VI that this change may at least partly be accounted for by considerable under-enumeration during the 1957 census, especially in the rural areas, as well as to the different criteria used for the enumeration of the working population. It is, however, remarkable that both in 1931 and in 1957 the tertiary sector supported a far larger proportion of the labour force than did secondary industry, namely manufacturing and construction. But the impact of development in a dual economy has resulted in the growth of some service sectors at the expense of others rather than in a general overall growth. Thus the third group of tertiary workers (comprising the bulk of traditional as opposed to modern occupations) has shown the most dramatic decline of all groups. On the other hand, Government employment which forms the bulk of occupations represented in the second tertiary group now accounts for about 12 per cent of the total whereas in 1931 it represented only 2 per cent.

This pattern of employment expansion characterised by a disproportionate increase in Government employment is likely to have persisted since the attainment of independence in 1957 due to a general growth in the administrative machinery and in the armed forces. Unless Government measures to implement industrialization, especially in the production of light consumer goods which will make available effective import-substitutes to the Malayan consumer, are speeded up it is unlikely that secondary industry will absorb a considerably larger proportion of the labour force than exists at present. Prospects of such a change, however, do not appear promising because of Government's greater concentration on agriculture, which is revealed in the various economic plans drawn up since independence and which forms the subject of the next chapter *IX*.

## Chapter VIII

### The Origins of Industrial Relations and the Growth of Trade Unionism.

It is necessary in order to understand the characteristics of trade union development in Malaya to have some knowledge of the pattern of evolution of industrial relations since the introduction of specialised production of primary commodities for export. In a subsistence economy with a political structure which was feudal in character, as Malaya was before the advent of British rule, there was no scope for the growth of industrial relations. Economic activity was confined to the peasant production of subsistence produce, chiefly rice, among small farmers dispersed in numerous riverine settlements. In the sparsely populated Malay Peninsula there was no shortage of land and hence landless agricultural workers (one of the main sources of wage labour for new industries) were unknown. Labour requirements for the construction of public works and other needs of the State (especially military) were readily procured by the Sultans and their chiefs from the peasantry.

In addition a relatively large proportion of peasant production was by custom acquired by the State functionaries to feed the royal household, the aristocracy (made up of more distant relations of the royal household) and the various classes of court attendants.

The growth of entrepreneurship, commercial activity and the evolution of more sophisticated modes of production among the Malay peasantry were blocked by the arbitrary nature of the rule and taxation as well as the monopoly of trading held by the aristocratic class.<sup>1</sup> The latter, however, were content to assign their trading monopolies to foreigners, especially the Chinese, in return for a share of the total proceeds. The indigenous economy therefore remained stagnant and per capita productivity even declined during the many dynastic wars which preceded British rule in Malaya.

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1 J.M. Gullick, *Indigenous Political Systems of Western Malaya*, See also, R.O. Winstedt, *the Malays - A-Cultural History*, Singapore, 1947.

The great fluctuations in the population of the Malay States in pre-colonial times was due only in small part to loss of lives in battle. They were largely caused by the flight of the peasantry in search of more stable political and economic conditions. In the course of such flights, the peasantry had been forced to abandon even the few sedentary agricultural practices which they had but recently acquired. As Phelps Brown has noted, even in long-settled stable agricultural communities the rise of a free labour force is a necessary pre-condition to the growth of industrial relations.<sup>2</sup> A free labour force, however, could not come into existence until three major conditions had been fulfilled in the community. These are, firstly, the universality of law and order; secondly, the progressive extension of the market mechanism as the sole determinant of production and consumption functions; and thirdly, the decline of important restrictions on the occupational mobility of labour.<sup>3</sup>

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2 E.H. Phelps Brown, *The Economics of Labour*, New Haven, p. 19.

3 *Ibid.*, pp. 11-12.

None of these conditions prevailed in the Malay States and without the advent of British rule and foreign capital investments in the country in the late nineteenth century, the ultimate evolution of a system of industrial relations may well have taken three or four times as long as it did.

By the mid-nineteenth century considerable numbers of Chinese immigrants were concentrated in the three tin-producing west coast states of Perak, Selangor and Sungei Ujong. Thus the first appearance of a labour force which was not in any way dependent on agriculture was due to the immigrant Chinese entrepreneurs and the tin mining industry which they established in Malaya. But the Chinese tin mine owners were able to exert over the immigrant labour force the same kind of feudal control as the Malay chiefs did over the rest of the country. Two factors were chiefly responsible for the non-appearance of a free labour force and a system of industrial relations among these non-agricultural workers before the introduction of British rule. Firstly, the Malay chiefs who allowed mining concessions to be operated by Chinese mining entrepreneurs in the different states, had not been able to provide the state machinery required for enforcing law and order in areas of/

of large immigrant population concentration. It had become the practice in the Malay States to let the Chinese employer in a mining area to assume all the political and legal functions of state in so far as his own immigrant labour force was concerned, but he himself remaining subject to the ultimate authority of the Sultan.<sup>4</sup> Thus the Chinese mining employer was under no sanctions as far as his relations with his own labour force was concerned and he functioned as the virtual ruler over immigrant workers. Secondly, the immigrant Chinese labour force was composed mainly of workers who had not freely contracted with the employer on the terms of service. The term 'coolie labour' as applied to Chinese immigrants at this time referred in fact to conditions which differed only slightly from slavery.<sup>5</sup>

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4. Gullick, op. cit.

5. P.O. Campbell, Chinese Coolie Emigration to Countries in the British Empire, London, 1923.



Would - be employers of Chinese mining labour had to get them through ship owners and merchants in the major ports of Singapore and Penang, where 'coolie' traffic was as much an important avenue of business as was the trade in primary produce of the area. The 'recruitment' or purchase of these workers at the major ports of immigration in Malaya involved the settlement by the prospective employer of all outstanding debts of the workers in regard to shipping and maintenance as well as the payment of a premium on a per capita basis.<sup>6</sup> The premium charged by importers of 'coolie' labour varied with conditions of demand in the labour market, so that it was not unusual for such importers to hold back considerable numbers of immigrant workers from immediate employment. Thus labour brokers in Malaya were able to manage a continually 'tight' labour market by artificially controlling the flow of immigrant labour into the country.

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6 W.L. Blythe, "Historical Sketch of Chinese Labour in Malaya," *Journal of the Malayan Branch of the Royal Asiatic Society*, Vol. XX Pt I, June 1947, pp 64-114. See also *Straits Settlements Labour Commission Report*, 1890.

It was not unusual that under such conditions of 'recruitment' the immigrant workers came to regard their relationship with their new employers as an almost permanent system of debt-bondage rather than as a system of free contract of service. The duration of indebtedness or of the semi-servile state of the new workers (or 'sinkehs,' as they were locally called), tended to be extended rather than diminished in the course of their new employment. This was due to the extensive practice of the 'truck system,' whereby employers were entitled to deduct costs of food and other necessities supplied workers from their wages. In view of the fact that tin mine employers also functioned as political overlords over the Chinese population, it was possible through the 'truck system' to maintain and retain a large labour force at low real wages.

It was not until the turn of the century when British capital had been invested in plantation agriculture, based originally on sugar and coffee and subsequently on rubber, that immigrant Indian labour in Malaya assumed significant proportions. Although the method of Indian labour recruitment differed from the import of Chinese 'coolie' labour, the consequences as reflected in conditions of service and employee status/

status were the same. The indenture system of recruitment extensively used by European planters in Malaya involved the payment of cash advances to ship-owners who plied the route between the west coast of Malaya and South India who in turn undertook to transport the required labour force as provided in the agreement.<sup>7</sup>

In South India itself the shipping firms were dependent on commercial recruiting agencies which had been established to meet the labour demands of several British colonial territories not only in Asia (in Malaya, Ceylon and Burma) but also in parts of Africa and particularly in the West Indies. Thus the indenture system of recruitment interposed several intermediaries between the Malayan planter and his prospective labour force so that the would-be employer had no means of assessing the quality or aptitudes of workers who were engaged on his behalf.

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7 Federated Malay States, Report of Commission Appointed to Enquire into the Conditions of Indentured Labour, 1910.

Further the efficiency of workers so engaged for Malayan plantations was found to be far below the minimum required level, especially as the professional recruiters in South India had practiced deception and 'press-gang' methods in persuading unemployed Indian workers in persuading them to sign the indenture papers. Thus workers who had previously had no agricultural experience as well as those who had chosen to join families and friends in some other British colony often found themselves in strange Malayan surroundings where they languished.<sup>8</sup> An additional factor in the high labour costs of Malayan employers of Indian labour was the tendency of Indian recruiting agencies to put up the charges on their services by collusive agreements.

As in the case of the Chinese mining industry, the European owned plantations were able to shift almost the whole of the burden of the high recruitment costs to the worker.

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<sup>8</sup> C. Kondapi, *Indians Overseas, 1838-1949*, New Delhi, 1951.

As we noted in Chapter II, not only did the planters attempt to recover as high a proportion of such costs from wages but, faced with a steady increase in these costs because of additional demand for labour from other parts of the Empire, the employers in Malaya extended the period of indenture from the normal two years to a minimum three - year period. In practice, however, such contracts of employment tended to be of longer duration than provided in the indenture. The laws under which the indenture system in regard to Indian immigrant workers operated in the Malay States provided considerable arbitrary power to the employer but denied workers a simple and comprehensible system of arbitration and conciliation of their grievances.<sup>9</sup> Both heavy fines and imprisonment in hard labour conditions were strictly laid down by law for breaches of the contract of service (including such imprecise and vague offences as 'disobedience of orders') and the worker concerned would forfeit not only his wage for the day of the breach but also for subsequent days until his fines had been fully paid up to the employer.

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9 J. Norman Parmer, Colonial Labour Policy and Administration, New York, 1960.

In case of conviction to a term of imprisonment, the 'lost' days were added to his indentured term so that the final effect of penal sanctions upon the contract of employment was to render it of uncertain duration, like that of Chinese 'coolie' labour in the mining industry.

Thus although slavery was not an established mode of managing labour resources in either pre-colonial or colonial Malaya, the labour force in both the indigenous Malay peasant economy as well as in the new export-oriented new industries were under the burden of several major economic and legal disabilities which thwarted the evolution of democratic industrial relations. The non-existence of a large reserve of unemployed or under-employed labour displaced from the indigenous subsistence economy forced employers to rely on immigrant labour and the consequent high costs of recruitment were chiefly responsible for the harsh terms which employers were able to impose unilaterally upon workers' contracts of service. Although, as Phelps Brown has noted, in the presently industrialised countries of the world the process of modernisation of the labour market was brought about by the rapid growth of the paid or /

or wage labour force and the corresponding decline of the self-employed worker,<sup>10</sup> conditions in Malaya produced a different pattern of growth. Foreign capital and enterprise responsible for the establishment of the tin mining industry and plantation agriculture in Malaya found it expedient and economical to attempt to discipline immigrant labour through penal sanctions rather than through the evolution of an incentive system. Thus the initial growth of a wage labour force in Malaya engaged in specialised production for export did not immediately result in a greater degree of freedom in labour market transactions. Specialisation of wage workers along ethnic lines (Chinese in mining and Indians in plantation agriculture) as well as the virtual abstention of the indigenous Malay cultivator from wage labour, except for very brief periods, resulted in a labour market where competition among workers as well as their industrial and occupational mobility was greatly reduced.

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10 Brown, *op. cit.*, pp. 20-28.



The commercialization of the processes of recruitment and shipment of immigrant labour in the hands of numerous intermediaries before their eventual employment in Malaya, led to the imposition of onerous terms in their service contracts, whether these were formally entered into (as in the case of Indian immigrants under the indenture system) or remained informal and established by custom as in the case of Chinese workers generally. A third restriction on the rapid development of a free labour market was produced by the quality of the immigrant workers themselves. They were essentially of peasant origin, whether they came from India or China, and tended to continue their traditional behaviour patterns whether these had been dictated by rigid caste or clan practices or produced by the harsh conditions of life consequent upon landlordism and exploitation of the landless agricultural worker. As Bruno Lasker has observed of this general class of worker in the new industries of colonial Southeast Asia,

"Not only is he likely to be unconscious of belonging to a special class, but his employer keeps up the semblance of a household relationship in which the labourer's position may not be very different from that of a poor neighbour or relative.



When he serves in a larger undertaking the labourer is usually one of a crew, and the foreman assumes the role of the paternal employer... This paternalism verges on tyranny when the potential labour supply, as often happens, is drawn from a large area and is virtually inexhaustible. The employer becomes more impersonal towards his employees, when the latter in their simplicity still cherish the feeling of loyalty toward him. The worst labour conditions in Asia tend to occur in this twilight zone between traditional and modern enterprise." <sup>11</sup> As we have seen, similar conditions obtained in Malaya in the late nineteenth century and also well into the present century, until Government legislation, the growth in the size of the immigrant population as well as the changing technology of the new industries gradually established the necessary conditions of a free labour market. It was however not until after 1914 when the indentured system of labour engagement was banned that we may reasonably look for evidence of growth of industrial relations of even the most rudimentary form in Malaya.

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<sup>11</sup> Bruno Lasker, in Foreward to Kenneth K. Kurihara, *Labour in the Philippine Economy*, Stanford, 1946, p. iv. See also Bruno Lasker, *Human Bondage in Southeast Asia*, North Carolina, 1950.

A free labour market by itself proved an insufficient condition for the rapid growth of an organised labour force. The ethnic and geographical distribution of the working population as well as the impermanence of the immigrant workers' commitment to his employment were strong deterrents against the growth of local as opposed to traditional Indian or Chinese loyalties. Consequently the earliest associations among immigrant populations were characteristically institutions based on their experience in their own countries. In Malaya the first instance of such associations is provided by the growth of guild-type associations among the Chinese immigrants since about the first decade of the century. Although at first they developed as associations catering to both employees and employers alike belonging to particular clans they gradually evolved into more specialised ones. Among the more specialised of these, those that catered exclusively to employees were solely restricted to the artisan classes so that their essential function was the economic and professional enhancement of their own occupations rather than the development of industrial relations and strengthening of the economic position of the working class in general.

Thus although some labour economists have attempted to distinguish these early Chinese associations according to their composition as employer and employee guilds, we may doubt whether there were any employee guilds at all.<sup>12</sup> It would be more accurate to describe the differentiation as arising from the fact that some were guilds of merchants and traders whereas others were guilds of self-employed tradesmen who took work on contract. Both in conception and in operation these 'employee guilds' were far removed from organizations of wage workers (based on the primary goal of enhancing the wage bargaining position of employees vis-a-vis employers) which have in all cases preceded modern trade unionism.

It is to Government action towards modernisation of the social and economic structure of the country rather than to indigenous or immigrant institutions that we must look for the origins of trade unionism in Malaya.

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12 O Gamba, *The Origins of Trade Unionism in Malaya*, Singapore, 1962. See also S.S. Awberry and F.W. Dalley, *Labour and Trade Union Organisation in the Federation of Malaya and Singapore* (H.M.S.O. Colonial No. 234, 1948).

British rule in Malaya until after the First World War had generally been based on the general policy of minimum interference in the affairs of the indigenous and immigrant peoples of Malaya. Such an attitude on the part of the Malayan Government was due as much to the official policy of indirect rule<sup>13</sup> as to lack of any long-term planning at the Colonial Office on the future development of overseas territories. There was, however, a marked change during the inter-war period when "the process of transmission of ideas and institutions from Britain to her colonial dependencies became a good deal more conscious and more organized."<sup>13</sup> There were several reasons why the Colonial Office was forced to make a conscious attempt at evolving a social and economic policy in the government of its territories. Since Joseph Chamberlain's tenure of the office of Colonial Secretary the need for a well-defined and purposive colonial policy had been a frequent subject for discussion in the British Parliament.

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<sup>13</sup> Sir Sydney Caine, in Preface to B.G. Roberts, Labour in the Tropical Territories of the Commonwealth, London, 1964, p. vii.

Secondly, a considerable amount of factual information as well as studies - in - depth had been accumulated which enabled analysis of colonial problems as well as policy prescriptions to be made in global or aggregate terms rather than in ad hoc fashion, as had been done in the past. The third and perhaps the most important factor responsible for this change was the rapid social and political developments in the larger territories such as India and what may be described as 'the demonstration effect' of the administrative experience gained there on smaller, less sophisticated colonial administrations.

Colonial Office policy towards modernisation in its overseas possessions evolved in two stages.<sup>14</sup> This policy of modernisation, which involved the transmission of social and economic institutions similar to those in the home country or to those which had been tried out in the more advanced territories, was during the first stage concentrated primarily on the aspect of technical information.

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<sup>14</sup> Ibid, p. viii

Following the end of the First World War, and especially after the middle 20's, the Colonial Office began to attach to itself specialist advisers in agriculture, education, public health, with whom were associated advisory committees which included experts in all the appropriate branches of knowledge in those fields. These became the central points to which the technical officers in agriculture, education or medicine looked for advice and information, while actually serving in the colonial dependencies. In Malaya this phase coincided with the expansion of the Departments of Agriculture, Medical Research and Rubber Research and a general expansion of the administrative machinery but failed to introduce any radical changes in labour relations. It is therefore to the second stage in the evolution of Colonial office policy, particularly towards the end of the inter-war period, that we must turn to observe the development of social administration and a more systematic labour relations system in the colonial territories, as well as in Malaya. The great depression of the 1930's was, as B.C. Roberts has noted, an important stimulant in the development of trade unionism in the colonies because it suddenly brought about the end of employer-paternalism in industrial relations even in the largest plantations and/

and estates.<sup>15</sup> As all primary producers, irrespective of size of firm or of level of efficiency were forced to lay off workers and to reduce wages in industries which had been led to expect a long spell of prosperity, the traditional faith of employees in employer benevolence was rudely shaken. Due to inexperience of workers in industrial relations and the absence of recognised negotiating machinery, the widespread grievances of employees found expression in demonstrations and illegal disturbances which had to be quelled by force. These were particularly serious in the West Indies and resulted in the setting up of the West India Royal Commission in 1938. The terms of reference of the Royal Commission were wide-ranging and a comprehensive investigation of the social and economic conditions in colonial economies was a by-product of this study. At the same time an urgent study of the West Indian labour situation was undertaken by Major Orde Brown, a specialist in colonial labour problems who had previously reported on similar problems in Africa and in Southeast Asia.

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15 B.C. Roberts, *Labour in the Tropical Territories*, pp. 207-214.

The West Indian studies were of particular importance not only in the formulation of economic and social development planning in colonies<sup>16</sup> but also in encouraging local administrations there to over-ride employer pressures against the introduction of legislation for more democratic industrial relations and the growth of trade unionism. In spite of the Colonial Office instructions to modernise industrial relations, several local administrations, as in Malaya, were not able to speedily implement these new reforms either through lack of experienced personnel or because of employer obstruction.<sup>17</sup> Thus in Malaya despite widespread stoppages of work by employees in a variety of occupations and industries in the late 30's no legislation had been introduced to facilitate negotiation by groups of organised workers with their employers for improved conditions of employment and wages.<sup>18</sup>

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16 This is more fully discussed in Chapter IX. See also D. Niculescu, *Colonial Planning: A Comparative Study*, London, 1958.

17 Roberts, *op. cit.*, p. 180.

18 J. Norman Parmer, "Chinese Estate Workers' Strikes in Malaya in March 1937," in *The Economic Development of Southeast Asia*, (ed. C.D. Cowan), London,



Workers organisations continued to be registered under the Societies Ordinance and functioned less effectively as trade unions than as cultural and social mutual-help societies. The fact that these societies had to be registered under the Societies Ordinance led them often to be narrowly confined to the interests of specific clans, castes or, at best, larger ethnic groups. The Trade Union Ordinance was finally passed in 1940 but no unions had been registered under it when Malaya came under Japanese military occupation in 1941. It had taken more than a decade for the Malayan Government to implement the circular dispatch from the then Colonial Secretary, Lord Passfield (Sydney Webb), dated September 17, 1930. The circular had urged colonial administrations to adapt existing British trade union and trade disputes legislation to local conditions so that a more rational industrial relations system may be evolved in place of the prevalent anarchic conditions in which not only workers but also employers would be economically injured in the long run.

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However, Malayan employers succeeded for a time in obstructing any new labour legislation which would have forced them to recognise trade unions and collective bargaining as legitimate economic institutions. The outbreak of strikes on a widespread scale in 1937 in Malaya was due to small groups of workers spontaneously demonstrating against employer tardiness in raising wages in proportion to the rising export prices.<sup>19</sup> Although political agitation was alleged as the cause, several employers for the first time found that had there been recognised industrial negotiating machinery, the actual loss of productive effort in terms of man-days would have been far less. The fact that employers had not produced a united body for deciding on standard wages resulted in a large variety of different rates for the same job - a situation which had further aggravated the industrial unrest. The Government found itself in a strong enough position to introduce three Bills: the Industrial Courts Bill, the Trade Unions Bill and the Trade Disputes Bill, which were not passed until 1940.

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<sup>19</sup> Parmer, op. cit., pp. 166-167.

We had seen earlier that the impact of modern methods of specialised production using wage labour and the subsequent growth of a free labour force had not resulted in the evolution of either indigenous or immigrant social institutions into incipient trade unions. In the course of the late twenties and thirties, however, political thought and action in the immigrants' home lands were beginning to shatter age-old beliefs and customs and in favour of accepting greater Westernisation of their society. Especially in China, under the leadership of Dr. Sun Yat Sen, the emancipation and stronger organization of the mass of ordinary workers was seen as an essential precondition to the future advancement of modernisation and industrialization. These developments had made a sufficient impression on the Chinese immigrants in Malaya so as to persuade them to adapt the ancient guild-type associations for the benefit of the mass of unskilled and semi-skilled workers.<sup>20</sup>

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20 V. Purcell, *The Chinese in Southeast Asia*, London, 1951, p. 362. See also his *The Chinese in Malaya*, London, 1948.

These associations of the Chinese working class were known as Mutual Help Associations and required to be registered under the Societies Ordinance. Unlike the earlier tradesmen's guilds (whether of employees or otherwise) these workers' associations were clearly incipient trade union organizations, especially as they were heavily infused with the General Labour Movement in China. Being registered merely as societies working for the general welfare of its' membership, they had none of the protection of trade union and trade disputes legislation.<sup>21</sup>

By the late 30's these Mutual Help Associations had spread from the urban industrial workers (chiefly in Singapore) to workers in the remotest estates and mines. Although these associations developed as exclusively Chinese immigrant workers' organizations, they were soon imitated by Indian rubber plantation workers and there were also a number with ethnically mixed membership.

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21 See Virginia Thompson, *Labour Problems in Southeast Asia*, London, 1947 (especially Ch. III), and also her *Post-Mortem on Malaya*, New York, 1943.

Two major reasons may be offered in explanation of the more rapid infusion of ideas of collective bargaining and of the emancipation of the worker through trade union and general labour movements. The nationalist movement in China led by Dr. Sun Yat Sen was ideologically modern or a Western derivative, and was clearly committed to rapid industrialization of the country. On the other hand, the Indian nationalist movement led by Gandhi and based on the spiritual advantages to be gained by passive, non-violent resistance to British rule in India, had no distinctive place to offer the growing industrial working class as opposed to the traditional small farmer. The second reason which accounts for the rapid absorption of new forms of labour organizations among the Chinese is the differences in the rigidity of the social structure of these two immigrant communities. Whereas social mobility among Chinese tended to be of a high order, dependent solely on economic success, among Indians numerous caste barriers tended to reduce it to the minimum, so that voluntary organization of the workers into societies was a difficult task.

Thus at the end of 1937 there were in British Malaya (including Singapore) 427 such Associations for Mutual Help, all but 70 of them being exclusively Chinese in membership. Even of the 70 bodies, the bulk were of mixed membership, with a predominance of Chinese workers.<sup>22</sup>

After the onset of the War in Europe, economic conditions of labour in British colonial territories came under pressure once again as prices of essential commodities began to rise due as much to speculative hoarding by wholesalers and traders as to any actual dropping off of imports. The British Government had in 1941 set up a Commission to report on current widespread colonial labour unrest. Its' outcome, in the case of Malaya, was a visit by the Labour Adviser to the Secretary of State for the Colonies, who reported that there was a great need for the absorption of the labour union and labour relations machinery into the institutional framework of the colonial governments.

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22 See Gamba, *op. cit.*, pp. 5-7 and also Awwerry and Dalley, *op. cit.*, pp. 19-22.

He also suggested that experienced trade unionists from Britain should be sent out as Trade Union Advisers to the various colonial territories not only to advise Governments on matters affecting industrial relations but also to build up a responsible and moderate trade union movement. These officers were duly appointed in all British colonial territories, except Malaya which had come under Japanese occupation. In Malaya, therefore, the Trade Union Advisers' Department came into existence only in 1946, after the War.

In addition to liberalising its colonial labour policies the British Government decided that the time had come to take a more positive attitude to the economic development of colonial territories. As a consequence, the Colonial Development and Welfare Act, 1940 came into being. As a further inducement to colonial governments to rapidly liberalise their labour policies, there is provision even in the Colonial Development and Welfare Act that the Secretary of State shall satisfy himself that there are adequate facilities for union organization and collective bargaining before making any grants for development and welfare under the Act.



Lord Moyne, the Secretary of State for the Colonies, had in 1941 despatched a circular regarding the implementation of the above Act wherein he extended Lord Passfield's provisions still further<sup>23</sup> and also included a draft Ordinance which might be copied by the colonial governments. Copies of the despatch and of the draft Ordinance were forwarded to the Governor of the Malayan Union during June, 1946, and immediately the Registrar of Trade Unions, the Trade Unions Adviser and the Commissioner of Labour were asked to comment on the Draft Legislation with a view to amending the Trade Unions Enactment of 1940 along the lines suggested by Lord Moyne.

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23 Lord Moyne, having given careful consideration to what should have been regarded as essential provisions in paragraph 1(2)(a) of the Colonial Development and Welfare Act, 1940, had stated that in addition to the provisions suggested by Lord Passfield, there should have been provision for the recognition of the rights of the members of trade unions to combine and to bring pressure upon employers, the recognition of the right to strike, the immunity/



A Trade Unions' Enactment along the lines suggested in the Draft Ordinance came into operation from July 1, 1946. The Trade Disputes regulations, however, remained the same as enacted in 1940, that is, a copy of the U.K. legislation of 1927.

Technically, therefore, there were no trade unions in Malaya before the War; but in assessing the characteristics and the dominant pattern of growth of the movement one cannot ignore pre-war developments in the industrial front. There can be no doubt that the Malayan Governments and the employers were acting irrationally in refusing to legitimise an incipient trade unionism that had existed since the late twenties.

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contd. immunity from civil proceedings of persons who had committed certain acts in furtherance of a trade dispute and the protection of trade union funds against civil proceedings in respect of torts committed.

It was ironical that as late as 1940 such full-fledged 'trade unions' as the Selangor Engineering Mechanics Association and the Singapore Traction Company Employees' Association, among others, were technically operating outside the law.<sup>24</sup> But of more direct significance to the growth of the trade union movement in the immediate post-war years was the social and political transformation wrought upon the peoples by the Japanese occupation. It is true that during the Occupation the workers of Malaya had no rights but in this respect they did not feel they had lost much. In spite of the complex legislation that had existed before the Japanese invasion, the worker had had no sense of participation in improving his own lot. Hence the indifference to legal rights. However, during the occupation due to the collapse of the export economy plantation and mining workers had become more self-reliant, and, under official indifference, had taken up any vacant land for growing subsistence crops. Although their position had worsened in an absolute sense as a consequence of the Japanese occupation, relatively they may be said to have improved.

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24 O. Gamba, Labour Law in Malaya, Singapore, 1955.

It was true that the workers who had managed to find land and cultivate subsistence crops had not suffered as much loss of income as the urban workers. Their new found sense of freedom was further enhanced by nationalist movements which inspired dedication and discipline as well as self-respect. Thus although the Japanese occupation had imposed great privations upon the workers in Malaya, the end of hostilities saw the emergence of a more mature labour force that had an organizational capacity far in excess of any observed in the pre-war period. One of the major causes of the chaotic industrial relations that prevailed in the immediate post-war years was the gross under-estimation of the organizational strength of labour by the returning employers.

The Malayan Communist Party came into prominence immediately after the War as the most important political party in Malaya. Although formed in 1928 it had continued to exist illegally as the Party members had decided not to register the organization under the Societies Ordinance.

During the War, however, the Party had gained at least de facto recognition from the British Government because of the close association between British Army intelligence and the Communists who formed the vanguard of the anti-Japanese resistance in Malaya. The Communist Party's strength in the industrial field had already been shown through some well-organised strikes in 1937 which had brought considerable benefits to workers. At the end of the War, the Communist Party sought to play a dual role in Malayan affairs; to gain political leadership among the people, especially the working class and to capture the leadership of the trade union movement.<sup>25</sup> While the political activities of the Party were considerably curtailed because it had to operate as an illegal and underground political organization; its' activities in the trade unions and in collective bargaining were more successful. The success achieved by the Communists in capturing the trade union movement is mainly attributable to the Malayan Government's long neglect of workers' growing aspirations.

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25 J. Norman Parmer, "Trade Unions and Politics in Malaya," Far Eastern Survey, Vol. XXIV, No. 3,

The 1946 Trade Unions and Trade Disputes enactments, therefore, came to be regarded by many observers as a Governmental effort to offer "too little too late." <sup>26</sup>

The Communist Party - organised General Labour Union came into existence immediately after the War and thus provided the only effective leadership to groups of workers in a variety of industries trades and occupations who had had no previous trade union experience. A large number of workers' organizations, grouped according to occupation, industry or even locality, became affiliated to the General Labour Union, the latter providing the key office-bearers for the individual unions. As the General Labour Union represented the mass of workers, undifferentiated by occupation craft or trade, it was not surprising that its' negotiations for better wages and working conditions generally tended to benefit the lower-paid unskilled and semi-skilled groups more than the others.

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contd. (March, 1955).

26 For a remarkable article that anticipated such developments in the colonial possessions in/

There can be no doubt that the greater part of the successes of the Communist-led trade unions was due to the support they had gained among this class of workers. By the end of 1946 it was estimated that 90 per cent of the unions registered or applying for registration were affiliated to or controlled by the Communist - organised General Labour Union.

The Government of Malaya's reaction to these dramatic developments in industrial relations remained negative in character. It sought to justify the principle of compulsory registration of all trade unions on the grounds that a) it was characteristic of all colonial labour legislation and b) it would grant public recognition to the union. However, it was clear that in Malaya registration was to be used as a weapon to check or control the trade union movement so that it would not become an important source of political power. More specifically, however, it was officially stated that such a weapon of control was necessary in order to check communist influence in the unions.

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contd. in Southeast Asia, see Wilfrid Benson, "Labour Problems in Southeast Asia," Pacific Affairs, 1943.

The Trade Unions Enactment, 1946, gave wide discretionary powers to the Registrar of Trade Unions by section 10, which provided that registration could only be given when the Registrar was satisfied that the composition and constitution of the particular trade union complied with the provisions of the enactment, and further that its' objects were not unlawful nor was it likely to be used for unlawful purposes. It was clear that the provisions of the Trade Unions Ordinance could not countenance the existence of the General Labour Union or any trade union body of such a nature. Hence at the end of 1946 the General Labour Union re-organised, and reconstituted itself as the Pan - Malayan Federation of Trade Unions.

During March 1947, however, the Malayan Government informed all new trade unions that April 1st was to be the final date for registration, and that action would then be taken against those unions which remained unregistered after that date. It was argued that the Government was forced into taking this step 1) by the difficulties experienced by labour in finding acceptable means of organization, 2) with unregistered/

unregistered unions calling strikes and 3) the unregistered Pan -Malayan Federation of Trade Unions participating in labour disputes. The Government did not bother to find out whether the greater part of labour's dissatisfaction did not stem from economic hardship and the restrictive labour laws, modelled on the 1927 U.K. legislation which had in England been repealed in 1946. In the United Kingdom the Act of 1927 had come into existence for the purpose of curbing strike action and trade unions' bargaining power. The Act created a new group of strikes - illegal strikes. On such an occasion an injunction could be issued to 'freeze' trade union funds which could otherwise have been used for its' support. Furthermore, any person deemed to have declared, instigated or incited others to take part in acts in furtherance of an illegal strike, could have been fined or imprisoned for two years. The most serious aspect of such legislation for the Malayan trade union movement was the fact that the term illegal could have a wide application and yet was not capable of any precise definition.



Thus any strike which extended beyond a single trade or which was understood to coerce Governments, either directly or indirectly was categorized as illegal. The trade union movement had not the slightest doubt that the Courts would interpret the word "illegal" in the way most unfavourable to unions.

The Malayan Trade Unions Enactment of 1946 thus sought to restrict the bargaining strength of unions and also put trade union funds in jeopardy. In addition, the Trade Disputes Enactment - an exact replica of the 1927 U.K. legislation - was so restrictive especially as regards 'picketing' and 'intimidation,' that it was practically impossible for any responsible trade unionist to have emerged from a strike action without some kind of police prosecution for offences under the Act. Such police prosecutions for minor offences under the Act would not in itself have been such intimidating factors had there been no serious repercussions following from it. But in fact, by section 26 of the Trade Unions Act of 1946, such offenders were debarred from holding any office in a trade union thereafter.

The same section provided that except for the secretary, the office-bearers of a union should be persons actually engaged in the trade or occupation represented by the union and more significantly, that no full-time office-bearer of the union who was not in the same trade would be allowed to represent the particular union in any federation. The authorities now began to give still greater attention to the Pan-Malayan Federation in order to curtail its activities. This tug of war between the unions and the Government continued until 1948. Early that year there were 289 registered unions on the mainland. Of these, 117 were under the control of the Communist-led Pan-Malayan Federation of Trade Unions, 86 were doubtful (so regarded by the Government), and 86 were independent. The membership of the Communist group was about 82,000 as against 67,000 in the doubtful and independent categories. The increase over 1947 was confined to the increased numbers in the 'doubtful' category.

The Government rendered it practically impossible for the Pan-Malayan Federation of Trade Unions to register itself by insisting that it comply with the statutory requirement that not less than two-thirds of the total number of officers of a federation should be persons actually engaged in an industry or occupation with which the trade unions desiring to federate were connected.

The situation in the Malayan Trade Union Movement at this time is best summed up in the words of a local newspaper, the Straits Times: "From an orthodox British trade union point of view these federations are quite unsound, since they are amorphous conglomerations of unions of every category from rubber workers to barbers, whereas a true trade union federation should be an alliance of unions all of which meet on common ground - as for instance, the rubber estate workers' unions."

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But these new Malayan Federations are the first groupings of the Malayan trade union movement towards a central national body such as the Trades Union Congress of Great Britain, and as such they represent a trend which is inevitable and merits the recognition of the law, if not the blessing of Government.<sup>27</sup> Meanwhile, the struggle between the trade union movement led by the Pan-Malayan Federation and the Government had come to a head and there was apparently no room for a reasonable compromise. In accordance with the statutory provision, to which the Registrar of Trade Unions appeared to attach special significance, the Pan-Malayan Federation now decided to organise workers in the major trades and industries on a Pan-Malayan basis and to cover workers in Government services as well as in municipal undertakings and in public utilities.

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<sup>27</sup> Straits Times, June 20th, 1947.

The unions also attacked the Registrar's ruling that it was illegal for the affiliates to pay any fees to the federations. Distrust among trade unions of the intentions of the Government and the Registrar in particular began to grow early in 1948 as more restrictive amendments to trade union legislation were introduced. The amended Trade Union Enactment of 1948 provided that a federation of trade unions could be formed only by trade unions whose members were employed in a similar trade, occupation or industry. All federations of trade unions established before the enactment were to re-apply for registration. There was no provision in the Enactment for any congress or central federation of all Malayan trade unions and it became clear that the Government intended to curb trade union powers drastically. The Communist Party of Malaya and the trade unions retaliated, leading to violence and intimidation on both sides. The whole complex structure of labour legislation in Malaya came to be suspect among trade unionists and Government officers connected with the Labour Department (the Registrar of Trade Unions and the Trade Union Adviser) were regarded/

regarded as agents of the employers or at best unsympathetic bureaucrats. Under the 1948 amended legislation the Pan-Malayan Federation of Trade Unions and its eleven State affiliates had no choice but to dissolve. The Pan-Malayan Federation had applied for registration on November 3rd, 1946: on June 12th, 1948 (or, twenty months later) the Registrar notified that its application had been refused. The officers of the Federation and a number of the leaders of the affiliated unions did not attempt to dissolve the unions officially. Within a fortnight due to increased Communist insurgency, the Government declared a state of Emergency throughout the country, conferring extensive powers to the police and the armed forces. The leading trade unionists went underground.

TABLE VIII.1  
TRADE UNION MEMBERSHIP IN MALAYA  
AS AT DEC. 31st. EACH YEAR.

YEAR	NUMBER OF MEMBERS
1946	67,452
1947	195,113
1948	69,134
1949	41,305
1950	54,579
1951	107,171
1952	127,946
1953	109,557
1954	105,584
1955	125,796

Source: Annual Reports of the Labour Department  
 Federation of Malaya.

With the declaration of a state of Emergency in Malaya, industrial relations went into the doldrums and the trade union movement suffered a set back. From the beginning of the Emergency industrial disputes diminished, to disappear almost completely.

A candid admission of the state of affairs may be found in the statement of the Commissioner for Labour, Singapore, who reported,

" ... disputes continue to be comparatively few, and such as they are can usually be settled without a strike. There is no doubt, however, that it has been fear of action under the Emergency Regulations which has in many cases prevented more active protest against retrenchment and wage reductions." 28

There were two remarkable developments in the period of the Emergency as far as the trade union movement was concerned. There was a dramatic fall in trade union membership, as may be seen from the tabulation shown above. If we take 1947 as the last full year during which the Pan-Malayan Federation had a continuous existence, although outside the law, and compare it with 1949, the first full year of the Emergency, we will note a drop in membership of almost 80 per cent.

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28 Commissioner for Labour, Singapore, Review of Labour Situation, Jan. 1949, Singapore, 1949.



The other major development was that the composition of the trade union membership had changed in such a way (as a matter of official policy, it has been said) so as to strengthen the Indian component and to reduce the relative strength of Chinese membership. In 1950, trade union membership in Malaya was 58 per cent Indian, 26 per cent Chinese; the other racial groups making up the balance. This was almost a reversal of the composition of trade union membership that obtained in 1947 - 48. One often gains a garbled version of official policy from colonial labour officers and the Deputy Commissioner for Labour, Negri Sembilan was no exception when he stated,

"At present all is quiet on the labour front, and it is to be supposed that the average estate employee is indulging in a sense of relief. But it is vital that something should take the place of the fugitive Communist unions. The Labour Department may fill the gap temporarily, but it should not be left to the Labour Department to try and fight, without weapons, the possible employers' attack on wages that may follow/

follow the removal of the bad hats." 29

It was evident to most independent observers, including the Trade Union Adviser, that since the declaration of a State of Emergency and the introduction of Emergency Regulations, which extended to industrial relations as well, that the employers were going to take advantage of the changed circumstances to entrench themselves in their anti-union attitude. The position of trade unionists was worsened by the fact that under the Emergency Regulations employers in isolated areas such as plantations and mines acquired honorary posts as police officers for the purpose of enforcing the Emergency laws. The extent of the impact of the Emergency on trade union activity may be gauged from Table VIII.2.

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29 In official correspondence, as cited in C. Gamba, *Origins of Trade Unionism in Malaya*, op. cit., p. 363.

Table VIII.2

STRIKES IN MALAYA: 1947-60

Year	Number of Strikes	Number of Workers Involved	Man-days Lost
1947	291	69,000	696,000
1950	48	5,000	37,000
1954	78	10,000	51,000
1957	113	14,000	219,000
1958	69	9,500	59,000
1959	39	7,000	38,500
1960	37	4,600	42,000
1961	58	9,045	59,730

Source: Malaysia Official Year Book, 1963.

Even after due allowance is made for the fact that 1947 was an exceptional year marked by post-war economic hardships, these figures provide a remarkable picture especially in view of the fact that after 1952 (in the post - Korean War boom period) employers resorted to retrenchment and wage reductions on a wide scale.

Another trend in the Malayan trade union movement that is observable after the declaration of Emergency is that the white collar workers (especially those in Government service, the municipal corporations and in public utilities) made rapid progress in organization and collective bargaining at the expense of other workers. The political climate in Malaya had changed to such an extent that any organization of industrial workers was prima facie suspect whereas civil service unions were more readily accepted as bona fide trade unions. The effect of such attitudes on the growth of trade union membership may be seen in Table VIII.3.

Table VIII.3

GROWTH OF TRADE UNION MEMBERSHIP

YEAR	INDUSTRIAL UNIONS		CIVIL SERVICE UNIONS	
	MEMBERS	UNIONS	MEMBERS	UNIONS
1948	43,500	104	25,500	52
1950	29,000	84	25,500	84
1952	84,000	91	43,500	123
1955	93,500	98	52,000	137
1958	152,500	91	58,000	158
1960	126,000	84	58,000	166
1961	134,000	87	77,000	179
1962	171,000	90	85,500	197

Source: Malaysia Official Year Book, 1963.

Under direct Government patronage of 'safe' unions, organisers of such unions came to regard trade union posts more as quasi-Government appointments than as trade union jobs.

The attractions of such a career were so overwhelming that there was a growing tendency for even these 'safe' unions to split up into smaller organizations than for them to consolidate their position through amalgamations.<sup>30</sup> This is evident from the figures for the Civil Service Unions for the years 1948 - 50 and 1958 - 60. In both periods it is clear that although the size of the membership remained the same, the unions had increased in number.

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<sup>30</sup> See C. Gamba, "Staff Relations in the Government Services of Malaya," *Malayan Economic Review*, Vol. II, No. 2, p. 20.

Thus following the declaration of a state of Emergency and the passing of the more restrictive Trade Union Ordinance of 1948, trade unions in Malaya entered a protracted period of inactivity. The organisers as well as the financial resources of more than one hundred and fifty communist-led unions disappeared into the jungle to support the cause of an armed insurrection.<sup>31</sup> Of the remainder several could not comply with the new legislation which limited federations of unions to unions catering for workers in similar occupations and industries. Furthermore, the Registrar of Trade Unions began to exercise his powers in regard to registration or de-registration more ruthlessly especially in the implementation of the rule that required all union officials, with the exception of the secretary, to have had three years' employment in the same industry which the union represented.

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<sup>31</sup> Gamba, *op. cit.*, p. 361.

The complex body of trade union and trade disputes law that had accumulated in Malaya since its inception in 1946 rendered it difficult for the mass of industrial workers who were not literate in English to organise themselves except with outside help.<sup>32</sup> The office of Trade Union Adviser which had been in existence since 1946 was of little significance to the bulk of industrial workers whose attitudes had been based on practical results rather than on theoretical exposition or legal enlightenment. The dominant role played by the 'white collar' unions in the trade union movement of Malaya in the post-Emergency period was therefore primarily a consequence of increasing Government participation in the organization and supervision of trade unions.

The disappearance of the communist - led militant trade unions left a vacuum which it was felt would be open to exploitation by international bodies unless a new more manageable institution was created which would be able to speak on behalf of Malayan workers.

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32 O. Gamba, Labour Law in Malaya, Singapore, 1955, p. 23.



This revival of interest in the promotion of trade unionism so soon after the effective measures undertaken to control their militancy was prompted less by local circumstances than by international developments. Early in 1949 the World Federation of Trade Unions had broken up into communist and non-communist bodies as a result of the latter's withdrawal. As a result of the policy adopted by the W.F.T.U. (now communist dominated) towards the colonial trade union movements, the Secretary of State found it necessary to urge all colonial administrations to prepare themselves against the communist offensive by encouraging the establishment of a united central trade union organization which would be able to represent local workers' organizations.<sup>33</sup> Thus both in Singapore and in Malaya, the Trade Union Adviser (with the approval of the respective Governments) set about the task of creating an institution similar to the British Trade Union Congress.

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<sup>33</sup> Gamba, *Origins of Trade Unionism*, op. cit., pp. 400-402.

It is important to note that the new enthusiasm for trade unionism came through Government channels and also that practical guidance at all crucial stages was given by a Government official in the person of the Trade Union Adviser. The lack of close contact between this official and the mass of leaderless workers is clearly shown by the fact that in both Singapore and in Malaya the sponsors of a Trade Union Congress were mainly nominated Legislative Council members whom both the Government and private employers had believed to be 'safe, sound and reliable.' In addition such active Government participation in the sponsorship of a Trade Union Congress inevitably favoured English - educated middle class leaders (who were mainly Indians) as against Chinese trade unionists.<sup>34</sup> The Credentials Committee of the Conference of trade union delegates which met in March 1950 to finalise the formation of a T.U.C. was instructed in its duties by an officer of the Trade Union Adviser's department.

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34 Ibid., p. 396.

The same officer acted as its' adviser during the whole of the Conference's proceedings while the Trade Union Adviser himself acted as adviser to the Conference. At the request of the Working Committee, the Trade Union Adviser's department had supplied officers who acted as interpreters, stenographers and even as Press Officer to the Conference. The industrial composition of the total of 107 delegates who attended the Conference to approve the structure and functions of the future T.U.C. of Malaya is shown on the next page and provides an interesting insight into the changing character of the trade union movement.<sup>35</sup>

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<sup>35</sup> Ibid, p. 403.

Table VIII.4

Unions' Representation at Conference  
on Trade Union Congress  
Kuala Lumpur - 1950

Unions	Members
Government	48
Semi-Government	15
Non-Govt. Clerical	4
Mining	3
Rubber	15
Railway	6
Miscellaneous	16
Total	107

Source: Gamba, The Origins of Trade Unionism in  
Malaya.

The ascendancy of civil service and 'white collar' unions and the decline of industrial unions during this period was also accelerated by the Government's acceptance of Whitley Council machinery as the suitable negotiating machinery between Government employees and itself and by the rapid extension of Whitleyism to/

to the Railway and other quasi-Government corporations as well as to public utilities and municipalities. Although in Britain, where it had originated, Whitleyism had never been intended to supersede the unions but to co-ordinate and regularize trade union activities,<sup>36</sup> in Malaya it tended to neutralise the social and economic role of trade unions as such. The cumbersome and protracted nature of separate consultation and negotiation machinery introduced by Whitley councils tended to produce an apathetic union membership on the one hand and a rather active but small group of 'professionals' whose specialised knowledge of procedure tended to render them perpetual leaders. In private industry neither employers nor employees (but for different reasons) found the Whitley Council system to their liking. Nor did the Government make any attempt to persuade private industry to adopt a permanent consultative and negotiating machinery at natural, district or estate levels, similar to the one established in Government service.

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36 L.D. White, *Whitley Councils in the British Civil Service*, Chicago, 1933, p.3.

Another factor of importance in the rapid growth of white collar unions was the popular nationalist agitation for rapid Malayanization or the replacement of white expatriate officers in Government and quasi-Government employment by local officers. The scope for such indirect means of promotion and enhancement of one's earning capacity was chiefly to be found in Government service whereas in private industry such upward occupational mobility or even promotions were extremely restricted. Thus the rapid growth in numbers of 'safe' white-collar unions in Malaya was due as much to the emergence of a new class of local officers with aspirations to fill the posts to be vacated by expatriate European officers in the course of Malayanization as to the greater willingness on the part of the Government as employer to concede to collective bargaining procedure.

After the attainment of political independence by Malaya in 1957 the problems of the trade union movement have increased in complexity both because of the growing importance of national economic development as well as the changing political attitudes brought about by/

by the transfer of power. Labour economists have frequently noted the problems in other developing countries of the Commonwealth where political parties (even though they had once been allied with the trade union movement) once they had assumed the powers of Government have found it necessary to introduce coercive legislation to restrict the free development of the trade union movement.<sup>37</sup> In Malaya, however, since the declaration of the Emergency in 1948 (and even after 1960 when it was lifted) the trade union movement has played a negligible role in political developments. The ruling Alliance Party, which has formed all successive Governments since independence, has chiefly relied on a narrow communal or ethnic appeal to different sections of Malayan peoples and had avoided any close association with trade unions as such. As far as the trade union movement is concerned two important consequences have followed from such political development.

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<sup>37</sup> Roberts, *op. cit.*, pp. 117-121.

Firstly, the Government has not been able to produce any new ideas on the role of trade unions in an emergent society such as Malaya, nor has it questioned the relevance of the bulk of labour legislation that it has inherited from the colonial period. Secondly, individual trade unions as well as the Malayan Trade Union Congress have found it frustrating that their views are seldom consulted by the Government even on issues which impinge on conditions of work and earnings of workers as well as their unions.

The future of the trade union movement in Malaya and its ability to evolve a rational and acceptable system of industrial relations will depend on the extent to which the Government will be prepared to change its past policy of almost total exclusion of trade union participation in deliberations on national economic policy.<sup>38</sup>

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38 The experience of Israel provides a striking contrast to the Malayan pattern of development, although the degree of social cohesion achieved there may not be easily reproduced in other under developed countries.



The continuing weakness of the Malayan trade union movement will mean that the gulf between the few 'favoured' unions of employees in Government and quasi-Government service as well as in a handful of progressive branch plants of large international firms and those in the large number of indigenous local and small foreign-owned firms will increase. Such growing disparity in the strength of trade union organization between firms and industries in the economy would in the long-run produce industrial unrest and anarchy of a far more serious nature than those experienced in the immediate post-war years.<sup>39</sup>

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Contd. See J.Y. Tabb, "Israel's Socio-Economic Planning and the Role of its Interest Groups," in Industrial Relations and Economic Development (ed. A.M. Ross), London, 1966, pp. 286-293.

39 G. Gamba, "Polyethnic Societies and Industrial Relations," *ibid*, pp. 8-11.

In a situation of growing unemployment and increasing economic difficulties arising from efforts at implementing developmental programmes, governments in under developed countries have found greater appeal in resorting to authoritarian and totalitarian measures in curbing the growth of trade unionism. Apart from the army and the police force, trade unions have often represented the only nationally-organised force of any significance that has presented a 'threat' to governments in under developed countries. The resort to one-party rule, or, where there is already effective in one form or another, the destruction of any potential source of counter-weighting power (such as trade unions) has often provided the easy solutions to inexperienced and weak governments in under developed countries.<sup>40</sup> There is clearly a danger that the Malayan trade union movement may be engulfed by such a political situation in the future unless the Government makes explicit its' long-term policy towards the growth of trade unionism in the country.

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40 Roberts, op. cit., pp. 408-411. See also, Ioan Davies, *African Trade Unions*, London, 1966. p. 219.

## Chapter IX

### Planning for Development and for Employment Growth

In the period after World War II social and economic conditions as well as changing political circumstances in Malaya were to affect the labour force in a manner significantly different from past experience. By the late 1930's immigration from India and China had, as we have observed earlier, come to an end and the four-year period of Japanese occupation during the War had effectively stopped all social and personal contacts that the immigrant population would normally have maintained with their homeland. A greater identification with their country of domicile and participation in its' economic problems had induced in the immigrant labour force a sense of belonging which found expression in the growth of a large number of working men's organizations which despite their narrowly communal or sometimes political appeal had clear origins in the need for improved industrial relations. At the same time the rise of nationalist sentiment among the indigenous Malay population, who had become concerned that unrestricted immigration would produce/

produce adverse political consequences in the event of independence being granted, impelled the Malayan Government to enforce a strict control of immigration. Faced with the ban imposed by the Government of India on the emigration of unskilled Indian workers, employers in Malaya had ceased to bring pressure upon the Government to permit unrestricted immigration of foreign workers. However, it is to the growth of Malayan trade unionism that we must ascribe the main reason for the greater willingness shown by employers to make fuller use of the local labour market.

Important though the emergence of a local labour market is to the consideration of post-war labour problems separately, it is to the new political relationship between Britain and her colonies that we must turn to find an adequate explanation for the social and economic changes that occurred in Malaya in this period. Since the Great Depression of the thirties the Colonial Office as well as the British Parliament had been concerned to instil greater self-reliance in both economic and local political affairs upon colonial administrations.

With this object in view the Colonial Office had introduced in increasing measure local participation in the governments of its' overseas territories. In the immediate post-war period these efforts culminated in the grant of independence and fully -elected legislatures to several territories and in assurances of eventual self-governing status to others. These political developments were paralleled on the economic side by greater efforts being expended on making local administrations more competent in evolving social and economic development programmes that would ensure the long-term viability of these economies. The various Colonial Development and Welfare Acts passed by the British Parliament and which were administered by the Colonial Office were the instruments of these changes. The real origins of economic development plans that have become an established feature of former British colonial possessions after independence are therefore to be found in the development programmes initiated by the Colonial Development and Welfare Acts. In Malaya itself the first ever development plan was prepared to cover the period 1950-55 and was a direct result of the Colonial Development and Welfare Act of 1946.

Since the attainment of independence in 1957, the Government of Malaya has implemented successive five-year plans which have followed, in varying degrees, the pattern of planning as it was evolved during the colonial period. Although the Malayan Government has not sought to control the deployment of the labour force directly under these plans, it is clear that its' increasing direction of both investment and consumption expenditure as well as in the exploitation of the country's natural resources has rendered Government planning of the utmost importance in the further development of the labour force.

No formal plan for the economic development of the country had been introduced in Malaya before 1950. Nevertheless, the tremendous expansion in the level of domestic output and particularly in the value of export proceeds attained in Malaya since the turn of the century<sup>1</sup> would have remained largely unrealised but for the efforts of some of the early British colonial administrators.

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1 These changes would appear more spectacular the earlier the base year chosen. Thus when the period

In so far as they took the long view and foresaw the economic opportunities afforded the country by the expansion of tin mining and rubber cultivation and fostered these 'growth' industries by creating the necessary infrastructure within the country, they may be said to have performed the two most essential functions of any formal plan.

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contd. immediately after the introduction of British political control (1875-1899) is taken, we find that exports rose almost 80-fold from \$2 to 60 million and that Government Revenue rose 30-fold from \$1 to 15 million. Such dramatic growth in the first place of colonial development is clearly attributable to the impact of a monetized economy upon a subsistence social system, often referred to as 'the opening up process.' But even when we take the later, more settled period we may find rapid growth in revenue and in exports. Thus in the short span of 20 years, between 1900 and 1920, both exports and Government Revenue rose 5-fold. Federated Malay States: Manual of Statistics, 1929 (Kuala Lumpur, 1929).



These are, the strategic identification of those industries which, with the given level and distribution of factor endowment, would produce the most rapid rate of growth in domestic output, and the implementation of a programme of Government capital and current expenditure to ensure such growth. But such 'planning,' although based on sound judgement, is only relevant in an economy which is practically undeveloped or 'empty'<sup>2</sup>, and where the social costs of alternative paths of development would not become immediately apparent. However, in a territory under growing population pressure and less generously endowed with natural resources the problems of maintaining and raising the per capita incomes would be more urgent than in being able to show dramatic increases in domestic product or in export proceeds.

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2 Some economists have stressed the need to distinguish between the development problems of African countries and the more populous Asian Territories on this basis. See J.R. Hicks, *Essays in World Economics*, Oxford, 1959, pp. 168-9.



Paradoxically, it is in those countries which experienced the highest rates of growth in domestic product and export proceeds during the early decades of this century that we find the most striking examples of economic dualism.<sup>3</sup> This is revealed by the increasing social tension produced by the divergent economic interests of the urban/industrial sector and the rural/agricultural sector in any programme of integrated economic development.<sup>4</sup>

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3 Burma, Ceylon, Indonesia and Malaya provide outstanding examples of this pattern of development. See J.S. Furnivall, *Colonial Policy and Practice*, London, for a penetrating study of such economies during the early phase.

4 H. Myint, *The Economics of the Developing Countries*, London, 1964.

The difficulties in the way of economic integration of the two sectors of the economy have also been responsible for depriving the most important stimuli, for economic development, such as an expansion of the domestic market and a general rise of productivity and incomes especially in small farms and in traditional crafts and trades. It is in this context that the past growth experience of under developed countries, based on primary production with a strong export bias, has become increasingly irrelevant and the need for a strategy of economic development based on the maximum utilisation of domestic resources in an integrated economy has become urgent.<sup>5</sup>

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<sup>5</sup> The Australian administrators in the Trust Territory of Papua - New Guinea have recently become aware of this in their attempts to achieve rapid modernisation of the territory. See D.L. Gadiel, "International Trade and Economic Development in Papua - New Guinea," Economic Record, June, 1966.

Concentration on the production and export of tin and rubber, during a period when these were in great demand for the manufacture of a variety of consumer durables and producers' goods in the industrialised West, gave Malayan economic growth a distinct advantage. As the export sector expanded, Government revenue (based on relatively modest export taxes and on income from economic services) showed remarkable rates of increase, especially as the size of Government revenue in the initial period was very small. As Government reserves, built up from annual budget surpluses, grew in size, the problem of further capital expenditure was resolved chiefly on the basis of effective demand and on the criterion of a satisfactory rate of return on such capital expenditure. The 'growth' industries in the export sector were the only industries which could benefit directly from the expansion in Government administration and its expenditure on roads and railways, on postal and tele communications services, and, especially in the tropics, on public health and on the more conventional municipal services.<sup>6</sup>

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6 Expenditure under the above heads accounted for

As the bulk of these development expenditures were financed from budget surpluses and accumulated reserves rather than from loans, prudent colonial administrators were wont to stress the revenue-yielding aspects of their investments. Thus a cumulative process of demand and supply of essential social and economic services came into existence in the export sector which, in conditions of a primitive fiscal structure characteristic of a colonial economy, became established as inflexible principles of sound financial administration.<sup>7</sup>

Economic growth in the dualistic pattern, as described above, failed to reveal the latent tensions and imbalance in the Malayan economy in conditions of buoyancy in the export markets of rubber and tin. The subsistence sector of the Malaya remained largely isolated from the new growth industries and trades, which were based on foreign capital, enterprise and immigrant labour.

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contd. about 60 per cent of the annual expenditure of the Government in the period 1900-1915. Dun J. Li, *British Malaya - An Economic Analysis*, New York 1955 pp 15-20.

7 D.W. Stammer, "British Colonial Public Finance,"

Rice, the staple diet of the Malay farmers as well as the immigrant Indian and Chinese workers, could have been a critical factor in transmitting a part of the growth impetus to the subsistence sector. But the short - run supply inelasticity of the Malay subsistence sector as well as the opportunities afforded to traders to import rice at competitive prices from the neighbouring rice-surplus countries of Thailand and Burma prevented this from happening. The rice/rubber price ratio was so much to the advantage of the latter that the Government did not consider it would be worthwhile to encourage the expansion of rice cultivation in Malaya. As rice was imported into the country without restriction and was sold by traders at competitive prices in the local market the price of imported rice was a critical factor in the determination of wage rates of immigrant labour therefore, any attempts to control the import of rice so as to encourage the expansion of local rice production would have been met with the opposition of all groups, employers, traders, as well as workers, in the export sector.

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contd. Social and Economic Studies, Vol. 16, No. 2

(June, 1967).

The relatively small amounts of capital expenditure devoted to the subsistence sector by the Government provides adequate evidence of its' lack of a policy in this direction. The few drainage and irrigation schemes that were constructed in the rural areas in Malaya before the thirties were intended to alleviate the hardships suffered by the small farmers through damage done to the natural drainage pattern of the land by the large - scale clearing and construction operations of tin miners and rubber planters. Thus any development expenditure the Government was willing to undertake in the rural area was based on welfare considerations of compensation and was intended to restore the subsistence farmer to his normal and accustomed level of living rather than to transform him into a commercial agriculturist. Initially, at any rate the commercialization of rice production would have entailed the imposition of a level of duty on imported rice so as to make it uncompetitive in the domestic market or the granting of crop subsidies to Malayan rice growers.

But such a measure would undoubtedly have led to an increase in wage - costs of the export sector and a redistribution of incomes from export producers to producers of domestic food supplies - a result which could not have been welcomed by the export producers or the Malayan Treasury, at the time.<sup>8</sup>

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8. To a large extent the concentration of colonial territories' development expenditure in the export sector is due to the considerable influence that the mercantile and planter interests have been able to exercise on Government policy through their participation in the limited legislature or in recognised pressure groups such as the chambers of commerce. A.R. Frest, *A Fiscal Survey of the British Caribbean*, HMSO, London, 1957, p.9; N.A. George, *Finance and Development in West Africa*, London 1957, p. 315.

The overwhelming economic arguments against direct intervention in the subsistence economy of Malaya were reinforced by the accepted political doctrine of indirect rule or the dual mandate which had been officially pronounced to be the guiding principle of the Colonial Office in its relations with overseas dependencies.<sup>9</sup> The counterpart of this political philosophy that governed the regulation of economic affairs in these territories was the theory of comparative advantage and inter-regional as well as intra-territorial specialization.<sup>10</sup>

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9 The evolution of this political philosophy is expounded at length in Sir Frederick D. Lugard, *The Dual Mandate in British Tropical Africa*, London, 1923.

10 The just basis for a progressive imperial policy was the maximisation of economic welfare on a world basis. This could be realised only through the political doctrine of the Double Trust and the economic principles of the Open Door or Free Trade. Sir Ernest Barker, *The Ideas and Ideals of the British Empire*, London 1942, p. 153.



Thus there was neither domestic nor external pressure to modernise the subsistence sector. Such a pattern of economic growth in Malaya was characterised by a high ratio of exports to gross domestic product, favourable yearly trade balances, the financing of immediately productive public capital expenditure directly from current and accumulated budget surpluses and finally, the most treasured dogma of colonial fiscal policy, the absence of a public debt.

It is therefore not surprising that the idea that the Government should take a hand in the deliberate promotion of the long-term economic and social progress of the country, and not merely of the export industries, has been slow in appearing in Malaya. At a time when the colonial administrators were very conscious of the fact that private enterprise in the tin and rubber industries were largely responsible for the rapid growth of Government revenue and the administrative machinery, they were easily persuaded to put their trust in economic precedents.

Thus it was the prevalent official view that Government activity in the economy should be confined to traditional public utilities and transport services and general administration.<sup>11</sup> However, until the thirties labour supply posed a serious problem for the rapid expansion of the export sector and an adequate level of labour supply at low wages could only have been realised through Government machinery.

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11 Specifically, such a policy was generally advanced on economic grounds in all British colonial territories because the administrators were in no doubt that they would yield a satisfactory rate of return and could be justified as 'productive' investment. Stammer, op. cit., p But the social pressures upon the administrators to reproduce as far as possible the familiar comforts of the civilization they had been accustomed to in their home countries must be regarded as equally important.

Sir Frank Swettenham, British Malaya, London 1929  
p. 350.

And despite the slumps in export proceeds of the twenties and thirties, Malaya had never had to face the long-term prospects of unemployment and under employment before World War II. Even during these periods of depression, Malaya had enjoyed the luxury of being able to 'export' its unemployment problems through the existing institutional arrangements. Thus the machinery of administration and the funds that had been organised for the recruitment of immigrant labour were used to repatriate unemployed workers to their countries of origin. This ability to transfer, at least partially, the economic costs of unbalanced growth abroad, ceased with the out-break of the Second World War, and the post-war growth of nation - states in Asia conscious of their own economic problems.

The changed economic circumstances of the post-war world, especially the disorganised nature of the world markets for Malayan exports as well as the war damage suffered by the mines and plantations were sufficient arguments to persuade the advocates of laissez-faire that the Government had a considerable role to play in reconstruction and development.

Of greater significance to the long-term economic and social development of the British dependent territories was the major shift in policy made at the Colonial Office at the outbreak of the War. The British Government had shown increasing concern about the economic viability of its overseas dependencies especially after the Great Depression of the thirties. Although export-biased growth in these overseas territories had generally resulted in higher incomes and employment, their impact was often unevenly spread and the very rapidity in their growth had deprived these export economies of the necessary balance provided by industries catering for domestic consumption needs. Before the thirties, a high degree of specialization in one or two export products had proved advantageous although production for domestic consumption needs could be met by imports. But the unfavourable shift in the terms of trade against primary producers, especially of industrial raw materials, during the depression meant that the imports had to be cut to the new lower level of export proceeds in the country.<sup>12</sup>

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12 A special reserve fund known as the Revenue Reserve

At the same time domestic factor endowments were incapable of being organised effectively to produce locally the consumption goods that had previously been imported. The British Treasury had been forced to mount a considerable number of 'rescue operations' to cover budget deficits in overseas territories as a result of widespread unemployment and loss of income. These Treasury ad hoc grants which between 1930 and 1940 amounted to £12 million for all territories, were largely channelled into welfare and public works projects which were unrelated to any plan of long-term economic and social development.<sup>13</sup> However, the turning point in Colonial Office thinking on the economic problems of overseas dependencies came with the submission of the Royal Commission Report on the West Indies in 1940.<sup>14</sup>

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contd. Fund was created by the Malayan Government in 1937 to meet such exigencies.

13 B. Niculescu, *Colonial Plannings: A Comparative Study*, London, 1958, p. 37.

14 Statement of Policy on Colonial Development and Welfare, Cmd. 6175, 1940. The report itself was

The world depression had hit primary producers particularly hard and the West Indies provided a striking example of the economic and political upheaval that could result especially in dual economies characterised by both high export and import ratios, relative to their gross domestic product. A Royal Commission (under Lord Moyne) had been appointed by the British Government in 1938 to investigate the basic economic problems of the West Indies and to make recommendations regarding their solution. But before this study had been completed, similar crises developed in British territories in Africa and Asia, including Malaya.<sup>15</sup>

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contd. not published until 1945 (as Cmd 6607) apparently because of the fear that it might harm the war effort. Stemmer, op. cit., p. 196.

- 15 Virginia Thompson, *Labour Problems in Southeast Asia*, New York, 1947, pp. 62-80; P.T. Bauer, "Some aspects of the Malayan Rubber Slump," *Economica*, November 1944.

The British Parliament, under pressure of time and the War, was quick to absorb the novel and far-reaching recommendations of the Moyne Report and to approve its implementation throughout the Empire by passing the Colonial Development and Welfare Act of 1940.<sup>16</sup> The implementation of the Act in Malaya was, however, forestalled by the outbreak of hostilities in Southeast Asia and the Japanese occupation of Malaya from 1941 to 1945.

The Moyne Report was a serious indictment of past Colonial Office policy whereby these economies had been allowed to over-specialize in export production to the detriment and neglect of domestic sector industries and services.<sup>17</sup> The qualitative differences in factor endowments between these two sectors had not been reduced by the steady growth in export sector productivity in contrast to the stagnation of per capita output in the domestic sector. This growing disparity had become reinforced by the pattern of Government expenditure which had become unduly influenced by the/

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16 Niculescu, op. cit., p.30.

17 Sir Charles Jeffries, The Colonial Office, London,

the inflexible doctrine of the balanced budget and the unrealistic distinctions made between 'productive' and 'non-productive' investments.<sup>18</sup> The Report further stressed the dangers of allowing the unrestricted growth in the ratios of imports to domestic output, especially in foodstuffs. The Report urged on the Colonial Office the importance of diversifying the economies of its dependencies so as to achieve viability and further growth. Both from the Government revenue point of view and the need to maintain a satisfactory level of employment, it was essential that the output of the domestic sector industries should grow substantially. It was clear that economic conditions in the colonial territories had reached a crucial stage: although the scramble for export production had initially helped the 'take-off' from the primitive, self-sufficient and largely non-monetized stage, further progress could only be realised through greater diversification.

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contd. 1956, p. 150., and Margery Perham, *The Colonial Reckoning*, London, 1961.

<sup>18</sup> Stammer, *op. cit.*, p. 205.



The second Colonial Development and Welfare Act, passed by the British Parliament in 1945, is of more direct relevance to the post-war attempts in Malaya by the Government to assume some control over the pattern and rate of growth of the economy.<sup>19</sup> The Fund, set up under the Act, envisaged a total expenditure of £120 million for all overseas territories over a ten-year period of planned development. However, this amount was further reduced by the predetermined subdivision of the Fund by the Colonial Office into three separate categories, perhaps in the fear that local administrations would have under-estimated the importance of research and surveys for development. Thus the allocations were as follows:

Central Schemes including Research and Geological Survey	£23,500,000
Allocations to territories	85,500,000
General Reserve for supplementary allocations	<u>11,000,000</u>
	120,000,000

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19 Douglas Dosser, "The Formulation of Development Plans in the British Colonies," *Economic Journal*,

Thus when the Colonial Office required the individual territory to submit draft development plans for approval and to determine their share of grants from the Colonial Development and Welfare Fund, many local administrations proved less than enthusiastic in preparing a ten - year development plan in which such grants (an uncertain share of £85.5 million) would be of negligible proportion. None of the territories were in a position to formulate such an extended development programme until they had ascertained the other sources of funds on which they would have to depend primarily. Thus although the Colonial Development and Welfare Fund came into existence in 1945, the first applications for grants, accompanied by draft development plans, did not arrive at the Colonial Office until the late forties and early fifties.<sup>20</sup>

The administrations in overseas territories experienced considerable difficulty in complying with the novel requirements of the Colonial Office.

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contd. Vol. LXIX, June, 1959.

20 Niculescu, op. cit., pp. 65-70.

They had in the past been content with annual budgetary plans and were satisfied with the efficiency of preparing ad hoc projects based on immediate needs and financed from budgetary surpluses or accumulated reserves. Such development expenditure was naturally simple in technique and operation and involved no more than bilateral discussion and negotiation between the individual departments and the Treasury. In the absence of a central Government department to co-ordinate the work of preparing a development plan, the Malayan Government divided the task between the various Heads of Departments.<sup>21</sup> The five-year development plan was merely an aggregation of these Departmental reports, but pruned down so that the estimated costs would fall in line with the total available resources.<sup>22</sup>

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21 Federation of Malaya: Progress Report on the Development Plan, Kuala Lumpur, 1953, p.1.

22 This type of 'planning' in the colonial pattern has been aptly described as the "method of the shopping list." see W. Birmingham on 'Economic Development of Ghana' in W. Birmingham and A.G. Ford, Planning and Growth in Rich and Poor Countries,

The Draft Development Plan, or the "Yellow Book," was produced between the end of 1949 and mid - 1950. It was described as "an attempt to define the objectives of social and economic policy for the period 1950 - 55: to balance them in relation to each other, and to plan them within range of the resources available to finance them.<sup>23</sup>" The Plan, approved by the Malayan Legislative Council in July 1950, involved a total capital expenditure of \$ 214.6 million, to be financed from the following sources.

Colonial Development and Welfare Fund	\$ 28.3m
1949 Loan of \$ 100m	36.1m
1952 Loan of \$ 100m	91.0m
Other Malayan Funds	<u>59.2m</u>
Total Planned Development Expenditure	<u>214.6m</u>

The grant from the Colonial Office forms, therefore, about 13 per cent of the total expenditure,<sup>24</sup> and may help to explain the cautiousness with which the Malayan Government approached this new venture.

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contd. London, 1963.

23 Federation of Malaya: Draft Development Plan, 1950-55, Kuala Lumpur, 1950, p.2.

24 For British colonial possessions as a whole, the

The sum of \$ 59.2 m, referred to on the last page as Other Malayan Funds, were in fact the estimated revenue surplus for the plan period. Thus about 27 per cent of the total capital cost of the Plan was to be met from revenue while more than half was to be met from loan funds. This was a significant departure from earlier practice of the Malayan Government, which was to finance investment expenditure almost entirely from revenue and accumulated surpluses. But, as stated in the foreward to the 'Yellow Book,' it was not an unduly ambitious plan.

The Government could in fact have planned for a substantially larger amount of development finance from revenue, if it had not given undue priority to a rapid restoration of its' reserves.<sup>25</sup>

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contd. ratio of O.D. and W.F. grants to total Government development expenditure during this period was the same - 8 per cent. see Stammer, op. cit., p. 204.

25 Federation on Malaya: Progress Report, op.cit., p.6.

At the beginning of 1950, the reserves of the Federation of Malaya stood at approximately \$ 69 m, having declined from a high figure of \$ 221.5 m in 1946, or at the rate of about \$ 10 m per annum. But this rate of run-down on the reserves was due chiefly to the difficulties of restoring civil administration in the post-war period of economic and political instability and was therefore unlikely to recur on that scale again. A second source of under-estimation of the potential for financing the Plan was the Government's inability to forecast likely future changes in the export markets especially in rubber. Thirdly, the Plan could have been improved if the Government had adopted a more realistic fiscal structure based on explicit social goals and on the needs of a developing economy. Thus the Plan was conceived in the depressed world market conditions of the late forties and implemented during the generally buoyant world market conditions of the fifties. The Government had failed to assess the likely effects of an expansion of industrial activity in the West on export prices of primary products, especially rubber.<sup>26</sup>

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26 Ibid.

In fact the sharp rise in export prices produced by the Korean War resulted in an unprecedented increase of incomes, especially in the trading, business and finance sectors of the economy, which were largely left untapped by the Government because of inadequate fiscal and monetary structures.<sup>27</sup> A fourth source of weakness of the Plan was the apparent limitation imposed on evolving a comprehensive development policy based on priorities by the Government's espousal of the antiquated financial doctrine "that revenue producing works should be financed out of loan funds, annually recurrent expenditure out of revenue and, to the limit of the funds available, non - revenue producing schemes by grants from the Colonial Development and Welfare Fund."<sup>28</sup>

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27 J.P. Meek, *Malaya: A Study of Governmental Response to the Korean Boom*, New York, 1955; see also, A.R. Prest, *Public Finance in Under developed Countries*, London, 1963, pp. 21-22.

28 *Federation of Malaya: Draft Development Plan*, op. cit., p.5.

The schemes recommended for grants from the above source were estimated to cost about \$ 27.5 m, of which some \$ 25 m was for capital expenditure, the balance being allocated to meet annual recurrent expenditure arising from these projects. These archaic doctrines of sound financial management had been taken to such absurd lengths that even the Government could not strictly adhere to them in meeting actual expenditures under the Plan.<sup>29</sup>

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29 Generally, investment in physical capital was recognised as 'economic' or 'productive' whereas expenditure on social services (investment in human beings) was not so regarded. But essentially the distinction between social and economic expenditures was illusory and was largely a reflection of the time horizon chosen. see Richard S. Thorn, "The Evolution of Public Finances During Economic Development," The Manchester School of Economic and Social Studies, Vol. XXXV, No. 1, Jan., 1967 and also Dosser, op. cit., p. 258.



Thus under the rather rigid principle of differentiating revenue - producing from non - revenue producing expenditures, although the criteria on which such differentiation had been made were not revealed in the Plan, it was evident that greater stress would be placed on modernising the infrastructure in the export sector rather than on the welfare and human resources aspect of development or on the long-term needs of diversification of the economy. Such a shift of emphasis in colonial development planning (marking a departure from the Moyne Report) were only partly due to the natural bias of local colonial administrations towards preparation of development or investment programmes with clear precedents. After the financial crisis of 1947 the British Government had, through the Colonial Office, urged on the overseas territories that high priority should be given to export production and the expansion of international trade rather than to the expansion of social services and the purely welfare - promoting schemes. Thus the original purpose and prescription of the Moyne Report which formed the basis of the Colonial Development and Welfare Act had been substantially set aside, by force of circumstance, in/

in favour of the more conventional pattern of development that the colonial administrations were accustomed to. The distribution of the capital expenditure of the Plan, shown in the tabulation on the next page, reveals clearly that it was no more than a compilation of several 'development schemes' submitted by the various Heads of Departments. Other than the haphazard way in which the capital expenditure had been put together, one of the major shortcomings of the Development Plan was the fact that the traditionally larger and more influential Government Departments had been able to dominate the Plan.<sup>30</sup>

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30 Dossier accounts for variations in the emphasis placed on particular sectors of the economy, among Colonial Plans, by citing the final outcome of the Plan as a compromise document born of inter-Departmental pressures and influence; Ibid, p. 259.

Table IX.1

Capital Expenditure: Development Plan of 1950-55.

<u>Type of Expenditure</u>	<u>\$ '000</u>
Development of Social Services	
1 Education	35,015
2 Labour	455
3 Medical	16,896
4 Social Welfare	2,861
	<u>55,247</u>
Development of Resources and Utilities	
5 Agriculture & Fisheries	6,131
6 Forestry & Mines	8,572
7 Veterinary	2,015
8 Cooperative Services	5
9 Broadcasting, Information & Film Unit	2,154
10 Housing	3,000
11 Land Settlement	2,910
12 Posts and Telecommunications	32,201
13 Road Transport	365
14 Civil Aviation	3,730
15 Public Works	67,661
16 Drainage and Irrigation	28,835
17 Marine and Meteorology	1,817
	<u>159,396</u>
Grand Total	<u>214,643</u>

Source: Draft Development Plan, 1950-55.

Thus the allocations to Labour and Social Welfare as well as to Housing and Social Services together with the amount set aside for Land Settlement amounted in all to less than \$ 10 million or under 5 per cent of the total planned expenditure. But these are the Departments that should have been helped to expand fast especially in order to rehabilitate the working population of the country after five years of authoritarian Japanese military rule. But if the distribution of development expenditure on the economic services is considered, the share of the allocation to the rural sector (through the Departments of Agriculture & Fisheries and Drainage & Irrigation) was only about one-fifth, showing the strong export - sector dominance of Government investment programmes in the past. This was in spite of an intensive Government campaign for greater self-sufficiency in food, especially in rice which was being rationed. But the most striking feature of this Development Plan was the failure to develop an efficient and large-scale agricultural extension service that could benefit peasant production of food crops as well as cash crops such as rubber.

Although the results of the 1947 census were available, the producers of the Plan failed to indicate any employment objectives in it, presumably because no Department was interested in this aspect of development. Industrialization was not mentioned at all.

### Planning in the Agricultural Sector

Outside the Plan, however, the Korean War had revived interest in the rubber industry, especially in its inability to respond to higher prices by raising output. The stands of rubber trees in both the large foreign - owned estates and in the peasant smallholdings had aged considerably and productivity per acre had dropped markedly especially as a result of neglect during the Japanese occupation. Replanting with high-yielding varieties of new rubber seedlings had been inhibited during the 1930's by the Depression and the International Rubber Restriction scheme.<sup>31</sup>

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31. See P.T. Bauer, *The Rubber Industry: A Study in Competition and Monopoly*, London, 1948, pp. 183-185, for a detailed discussion of the special circumstances in which the peasant producers of rubber in Malaya were restrained from expanding their

Although there were no post-war restrictions on production most rubber producers lacked adequate reserves of funds to meet expensive replanting programmes especially as it involved cutting down part of the existing stand. The position of smallholders was even more serious not only because they could less afford a programme of replanting (as it also involves foregoing present income) but also because they had not kept abreast of research and development in the industry.<sup>32</sup> On the recommendations of the Smallholdings Enquiry Committee the Government introduced in 1952 a new tax on rubber exported from the country in order to finance a Replanting Fund.

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contd. rubber acreage; see also P.T. Bauer, Report on a visit to the Rubber Growing Smallholdings of Malaya, London, 1946.

- 32 It was stated that "the alternative to large scale replanting with high yielding material is the virtual extinction of the smallholding industry as it is known today." See Federation of Malaya: Final Report of the Rubber Smallholdings Enquiry Committee, Kuala Lumpur, 1952, pp. 680-687.

Although for administrative convenience it formed part of the export tax, that portion of the replanting cess ascribable to estate production was automatically and fully refunded to the various estates on the basis of the previous years' production figures. It was in effect a levy imposed on smallholders in order to provide an incentive to this class of producers to replant. The incentive was in the form of a grant of \$ 400 per acre subject to a maximum of 21 per cent of the planted acreage. However, this restriction did not apply if the acreage did not exceed 5 acres. The suggestion<sup>33</sup> that the estates should likewise be persuaded to undertake rapid replanting by abolishing the automatic refunding of their portion of the replanting cess was opposed by the Rubber Producers' Council<sup>34</sup> and was not taken up by the Government.

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33 A common tax for both estates and smallholdings was suggested by Federation of Malaya: Report of the Mission of Enquiry into the Rubber Industry of Malaya, Kuala Lumpur, 1954, p.v.

34 The Council was made up of representatives from foreign and locally owned rubber estates. An

It was clear that the Government could not persuade the estates to even partly subsidise the replanting programme in the smallholder sector. But such nice distinctions were not used in determining the balance of tax burdens and benefit in the smallholder sector. Thus although the number of existing rubber smallholders could not avoid the tax, the benefits under the Replanting Fund were not confined to those who had paid the tax. As newly planted rubber would take about 10 - 12 years to reach normal levels of production, and would not be ready at all until about 6 years after planting, such a replanting scheme would be subsidising newcomers at the cost of existing producers. Indeed after 1954 the relative burden of this replanting programme weighed more heavily on the smallholders than on the estates because of the introduction of a \$ 280 million subsidy, common to both groups, and which was to be financed from the export duty on rubber.

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contd. estate, by definition, excludes rubber holdings of less than 100 acres, the latter being smallholdings. However, over 75 per cent of foreign owned estates were above 1,000 acre size class



This subsidy, too, was separated into two funds on the basis of past production figures of estate and smallholder production of rubber, respectively. In effect, therefore, out of the two taxes, the export duty and the replanting cess, the estates were refunded, automatically and to the full, the amount collected as a replanting cess, thereby subjecting them to only one effective tax. On the other hand the smallholders were subject to both taxes and were also without the assurance that the taxes levied on them would be exclusively reserved for their use.<sup>35</sup> The estate sector, comprising production units of 100 acres and above, were not in any danger of being swamped by newcomers wishing to take advantage of the replanting subsidy, whereas this was to be the outcome in the smallholder sector.

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contd. whereas slightly over 80 per cent of locally owned estates were in the under 500 acres size class - Rubber Statistics Handbook, 1960.

35 Lim Chong Yah, "The Rubber Replanting Taxes," Malayan Economic Review, Vol. VI, No. 2, Oct. 1961, pp. 47-50.

When the Government introduced the replanting scheme in 1952 the rate of subsidy was uniform for all classes of producers: \$ 400 per acre subject to a maximum of 21 per cent of the total planted acreage. But the rate applicable to the smallholder was raised to \$ 500 in 1953 and 1954; and subsequently to \$600 per acre and subject to the same maximum acreage. Further, in 1956 the maximum acreage for a \$ 600 subsidy was raised from 5 to 10 acres, a measure which has encouraged the subdivision of large holdings into 10 - acre lots so as to take full advantage of the subsidy. In contrast to the foreign - owned estates which were rigidly organised, the locally owned estates and medium-sized holdings could be easily reorganised into smaller production units by nominally transferring portions among members of the family. This process, which has been aptly described as 'pseudo-subdivision,'<sup>36</sup> has led to widespread demand for old rubber land and a growing number of speculators have been able to purchase land from the less efficient estates and to sell them at a profit in subdivided lots.

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36 Ungku Aziz, Subdivision of Estates in Malaya, 1951-60, University of Malaya, 1962, pp. 177-180.

A Government-appointed Committee failed to recognise the economic implications of this speculative boom in land transactions and quite unrealistically interpreted the process of sub-division as one that could promote a new class of middle-income peasants. However, a more comprehensive survey of the economic problems of sub-division undertaken by the University of Malaya in 1961 gave a different picture. The Report categorically described growing subdivision of estates as an 'anti-development' process. It is against the national interest in its effect on farmers and rubber workers and on national land resources, national sources of revenue, social security systems and the quality of future rubber exports."<sup>37</sup> More than 60 per cent of the new owners of subdivided rubber land were found to be non-agricultural workers employed in other occupations mainly in the urban areas. The class of smallholders and peasant workers in the rural sector on whose behalf the replanting scheme was apparently started formed less than 10 per cent of the whole.<sup>38</sup>

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37 Ibid, p. 190

38 Ibid, pp. 103-110.

Thus the whole replanting programme which had brought about the process of estate subdivision had resulted in a process of income redistribution wherein the gainers were the estates which managed to dispose of their wasting assets at high prices and the land speculators who were able to reap the middleman's high margins. The losers were the rubber smallholders who had borne the tax burden in the first instance, and who had not received any comparable benefits; and the regular wage - workers in the rubber estates who became unemployed as a result of subdivision and were generally replaced by less skilled casual labourers.

The basic failure of the Rubber Replanting Scheme that was started in 1952, immediately after the Korean War boom, was due to the Government's ignorance about conditions of production in the peasant sector. As the Agricultural Census of 1960 revealed, about 70 per cent of peasant smallholdings were below 5 acres in size (see Table IX.2). Even this statistic does not convey the full story because the census enumeration did not reveal to what extent these smallholdings were 'fragmented,' or held in non-contiguous plots, devoted/

devoted to different crops.<sup>39</sup> Before the Government embarked on the costly replanting scheme it should, properly, have found out relevant information such as the average size of rubber smallholdings, to what extent the smallholder was dependent solely on rubber production for his income, prospects of alternative employment in the area, and finally whether the actual cost of replanting was the only or even the most important factor inhibiting a rapid rate of replanting.

Table IX.2

## Size Distribution of Peasant Farms in Malaya

<u>Size Group (acres)</u>	<u>Number of Farms ('000)</u>	<u>Percentage</u>
Below 1	45.9	10
1 - 1.9	79.7	18
2 - 2.9	78.0	17
3 - 3.9	57.4	13
4 - 4.9	41.7	9
5 - 7.4	72.1	16
7.5 - 9.9	28.7	7
10 - 14.9	28.3	6
15 - 99.9	17.7	4
<u>TOTAL</u>	<u>449.5</u>	<u>100</u>

Source: Agricultural Census of Malaya, 1960.

39 Ungku Aziz, "Land Disintegration and Land Policy

The Rubber Replanting Scheme illustrates the failure of mere financial inducements to rehabilitate the peasant producer and to raise him to the economic status of a middle - income farmer.<sup>40</sup> In fact, in under developed dual societies such financial inducements, when undertaken without deliberation and adequate safeguards, can only result in speculative, market-oriented arbitrage operations that work to the long-term detriment of the small farmer.

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contd. in Malaya," Malayan Economic Review, Vol. III, No. 1, April, 1958.

40 At the end of 1962, after ten years had elapsed since the introduction of the Rubber Replanting Scheme, only about one fourth of the total small-holder acreage had been planted to new higher-yielding material. see Ir. E.C. Poarde Kooper, "A Forecast of Malayan Rubber Production for 1960-70," Rubber Research Institute Research Paper, Kuala Lumpur, 1964.

The setting up of the Federal Land Development Authority in 1956 was a result of the Government realising the fact that the failure of the small farmer to re-plant with high-yielding rubber was due as much to a shortage of land as to inadequate financial resources.<sup>41</sup> As land alienation in Malaya is a power exercisable by the State as opposed to the Federal Government, the progress of land development schemes during the first five years of the Authority's existence was rather slow. This was due largely to the decentralised system of administration in land development. Before 1961, the first moves towards land clearing and settlement had to come from the different State administrations. The Federal Land Development Authority, acting solely as a planning and financial body, examined the suitability of the site offered by the State, provided the necessary technical assistance for the development and made available loan funds to the State. Once the settlers moved in, its responsibilities ceased and the State Land Development Corporation took over the responsibilities of management.

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41 R. Ho, "The Progress of Land Development Schemes in Malaya," *Journal of Tropical Geography*, Vol. 19,

The pace of land development and settlement under the decentralised method of administering the scheme was very slow and between its inception and the end of 1960 only about three thousand families had been settled in new land by the Federal Land Development Authority. From 1961, however, the Authority itself assumed all the administrative functions involved in these schemes, leaving to the State Boards merely the power to nominate settlers for the schemes. As will be seen from Table IX.3, on the next page, there was a marked increase in the pace of land settlement after 1961.

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contd. 1965.



Table IX.3

## Progress in Land Settlement

	Increase		
	1956-60 (actual)	1961-63 (actual)	1961-65 (target)
Schemes, number	25	25	60
Settlers, number	3,134	3,973	21,860
Planted area, acres	19,600	65,035	209,456
Area under Cash Crops, acres	18,092	64,544	169,519
Other Garden Crops, acres	1,508	491	39,937
Planted area per settler, acres	6.5	n.a.	9.4

Source: Federal Land Development Authority Annual Report, 1964.

Within the three year period 1961-63 alone twenty-five new land development schemes had been completed, involving some four thousand settlers and their families. This marked difference in the pace of land settlement after 1961 is brought out more clearly when we compare the increase in total planted area during 1961-63 with that of the earlier period.

The targets set for the period 1961-65 show clearly the urgency of the problem of land settlement for the rural economy of Malaya. The number of settlers and their families who were to be provided with land during 1961-65 was seven times the number who were actually settled during the earlier five-year period. Under the centralised administration of the Federal Authority it was possible to achieve greater uniformity in development schemes and the average size of holding allotted the settler had increased from 6.5 to 9.4 acres. Under the impact of the Rural Development programme which received greater attention had undergone some change: it was no longer sufficient merely to make more land available but it was also necessary to demonstrate that rural life could enjoy as many of the urban amenities as possible. Thus the Authority stated its' major goal as the settling of "as many families as possible on land development and settlement schemes provided with all major essential services, and to produce, at the end of the development period, normally of six years, prosperous farming communities with economically viable farms."<sup>42</sup>

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<sup>42</sup> Federal Land Development Authority, Annual Report

There can be no serious objection to a social policy which aims to duplicate as far as possible urban living conditions in rural areas. But it would be valid to question the economic assumptions on which such development schemes are based. The average Land Development scheme comprises an area of 4,000 to 4,500 acres and accomodates about 400 settler families, a thin concentration of population by any standards for urban - type development of infrastructure. It is therefore not surprising that such development schemes cost on average about \$ 900 per developed acre and above \$ 10,000 per settler. Far more important than the financial costs involved are the social implications of such schemes which could produce long-term economic consequences. The failure of the Government to secure greater participation and interest of the rural population in the execution of these development schemes is a serious shortcoming.

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contd. and Accounts to 30th June, 1962, Kuala Lumpur,  
pp. 42-44.

Once the site has been approved, all the development work from the initial clearing of the secondary forest and the planting of crops to the final building of settlers' houses and the erection of fences, is performed by private firms of contractors from the urban areas and their pool of casual labour. Thus both the primary and secondary effects of this high level of public expenditure have no impact on the rural community. Secondly, the Land Development Authority is required by law to finance subsequent schemes by recovering its' capital from individual settlers. But as the total development costs of such schemes and the interest charges payable by the Authority on loans involve large sums beyond the calculus of the average settler, the size of the debt borne is not readily noticed. The debt burden is further increased by the subsistence allowance paid to the settlers for about six years until the crops are ready for production and by interest charges at 7 per cent. It is hardly likely that the average farmer would ever enter into any debt obligation on such a scale unless he was certain that the creditor would be prepared to write it off as a bad debt some time in the future.

But the psychological reactions of apathy and indifference which this scale of debt obligation produce in the settler are undesirable both from a social and economic development point of view.<sup>43</sup>

Finally, both the Land Development schemes and the Rubber Replanting scheme were based on the view that if Malaya could secure her economic foundation as a low - cost producer of natural rubber, her economic development would be assured. Such a view became entrenched in the Malayan Government partly because of prevailing circumstances (that is, the fact that about 30 per cent of the G.N.P. and 52 per cent of the foreign exchange earnings were derived from rubber) and partly as a result of advice from international bodies. But these were without adequate foundation and far too optimistic even at the time when they were made and especially so if they had been based on realistic projections of synthetic rubber production and consumption for the sixties and seventies.

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43 R. Ho, op. cit.

The Food and Agricultural Organization had forecast in 1962 that the share of synthetic rubber in the total world consumption of rubber was steadily rising and that by the year 1970 it would have risen to about 55 per cent.<sup>44</sup> This was of course a conservative estimate, as it specifically excluded production and net imports of synthetic rubber in the Sino - Soviet bloc while at the same time including their imports of natural rubber. As Table IX.4 shows, however, the actual rate of expansion in synthetic rubber consumption was much more rapid.

Table IX.4

Share of Natural and Synthetic in World  
Rubber Consumption, 1950-65.

Rubber	1950-52	1953-56	1957-59	1960	1964	1965
Natural	65	65	55	48	44.9	44.6
Synthetic	35	35	45	52	55.1	55.4
Total	100	100	100	100	100	100

Source: United Nations Economic Commission for Asia and the Far East, Annual Economic Surveys, 1964 and 1965.

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44 United Nations Food and Agricultural Organization,

Unfortunately the Malayan Government had become convinced that cost-efficiency in production was the only factor on which natural rubber could successfully compete with the synthetic product. It was unrealistic to take such a simplistic view of price competition in international markets, especially when it involved competition between a primary product and a manufactured product from one of the growing science - based industries of the advanced economies.<sup>45</sup> The consequence of a rapid application of modern scientific methods on an unrestricted scale upon the production of primary products, is a very rapid increase of output and the accumulation of surplus stocks. This was the situation that faced Ghana, for instance, in the late fifties as a result of a national effort towards raising the productivity and incomes of cocoa-farmers.

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contd. Agricultural Commodities Projections for 1970,  
F.A.O. Commodity Review, 1962, Rome.

- 45 For a detailed exposition of the technological implications of this competition see, T.R. McHale, "The Competition between Synthetic and Natural Rubber," Malayan Economic Review, Vol VI, No.1, April, 1961.

On the other hand cost-efficiency in competition does not have to lead to vastly expanded output, and a glut of the market, in the case of manufacturing industry because of the fact that most of the firms tend to be multi-product firms and the importance of technological innovation for establishing flexibility in varying output levels under optimum conditions. Indeed in the case of synthetic rubber which is based on the most rapidly advancing petrochemical industries of the industrialised nations, technological rather than price considerations should have been the major subject for consideration before the Malayan Government embarked on this vast scale of commitment to natural rubber production.<sup>46</sup> As Table IX.5 shows, Malaya will be faced with greater problems of marketing her natural rubber output during the 1970's.

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46 As McHale concludes, "it is unlikely that the world's natural rubber industry will remain unscathed by the emergence of a new area of competition, and its' future is probable less promising now than at any time in its' history," op. cit., p.31.



Table IX.5

Natural Rubber as Proportion of Total  
Rubber Consumption in the World, in Percentages.

Territory	1950-52	1957-59	1960	1970 (est)
U.S.A.	44	35	31	25-27
Canada	60	45	38	30-33
U.K.	99	74	62	45-50
E.E.C.	93	71	60	45-50
Other European	95	73	63	45-50
Japan	100	87	73	55-65
Rest of World	98	75	60	45-50

Source: F.A.O. Agricultural Commodities Projections  
for 1970.

These problems can only be aggravated by the largest output that will be realised during this period as a result of the intensification of the Rubber Replanting programme in the late fifties and the sixties. The rubber producers of Malaya will have duplicated the unfortunate experiences of the cocoa-producers of Ghana ten years ago.

The extent to which planning policy in independent Malaya came to be burdened with what has often been described as the 'rubber mentality' can be understood from the distribution of public investment expenditure under the two five-year plans of 1956-60 and 1961-65, respectively, as shown in Table IX.6.

Table IX.6

Malaya: Public Development Expenditure, 1956-65.

Item	First Five Year Plan 1956-60		Second Five Year Plan 1961-65	
	\$ millions	% of total	\$ millions	% of total
Agriculture	227.5	23.6	467.9	20
Transport	206.5	21.4	524.9	22.4
Communications & Public Works Dept. and Utilities	51.6	5.4	112.8	4.8
Industry	262.2	27.2	599.0	25.5
Social Services	12.1	1.3	59.1	2.5
General Govt. & Administration	138.8	14.4	413.6	17.6
	65.0	6.7	167.1	7.1
Total	964.0	100	2,344	100

Source: Interim Review of the Second Five-Year Plan,  
Kuala Lumpur, Dec., 1963.

During the First Five Year Plan the Government was committed to accelerating the rubber replanting programme in the smallholder sector which accounts for the bulk of the investment activity in the agricultural sector. Thus the investment in the agricultural sector exceeded all other items except Public Works Dept and Utilities. But such classification may be misleading because a considerable proportion of the investment in infrastructure (especially roads, water supply and telecommunications and electricity) was in agricultural areas of the country. Thus a survey of Southeast Asian countries undertaken by U.N.E.S.C.O. found that Malaya had the highest ratio of rural investment to total development expenditure - about 37 per cent compared with 31 per cent in the Philippines and 27 per cent in Burma and Indonesia.

Table IX.7 shows the composition of public investment expenditure that the Malayan Government has undertaken during the three five year plans since independence.

Table IX.7

Public Investment in Agriculture, 1956-70.

Item of Expenditure	First Plan	Second Plan	First Malaysian Plan
	1956-60	1961-65	1966-70
	\$ millions		
Rubber Replanting	153.4	130.9	128.9
Land Development	16.7	129.8	335.0
Drainage and Irrigation	38.3	108.5	319.2
Fisheries and Animal Husbandry	4.1	13.8	45.0
Rural Marketing	-	1.3	19.5
Research and Extension	2.4	20.2	37.6
Other Services	12.6	63.4	15.0
Total	227.5	467.9	900.2

Agricultural Investmentas Percentage of Total Public

Investment Expenditure	23.4%	20.0%	28.5%
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Sources: Interim Review of the Second Five-Year Plan, and the First Malaysia Plan, 1966-70, Kuala Lumpur, 1965.

The emphasis on rubber cultivation is particularly revealing in the First Plan. As Land Development schemes were almost wholly devoted to rubber, we may take the total of the first two items in Table IX.7 as the proportion of rubber replanting in total agricultural investment. From a very high share of 75 per cent during 1956-60, investment in rubber replanting declined to about 56 and 51 per cent respectively during the two succeeding plan periods. This decline was of course due to substantial increases in investment under other heads, especially in Drainage and Irrigation (to increase the acreage under rice cultivation) and in Fisheries and Animal Husbandry. In fact, the investment in rubber in absolute terms increased about three-fold between the first and third plan. However, the strategy of public investment in the replanting programme had undergone a fundamental change. During the first plan period land development schemes were not significant and the Government relied almost entirely on financial inducement, as the large sum of S 153.4 million, paid out as replanting - cost subsidies, would show.

But the inability of the peasant producer to respond to financial inducements alone, for reasons discussed earlier in this chapter, has shifted the emphasis of public investment to land schemes and the direct participation of a Government-sponsored corporation in this sector. The haste with which this replanting programme was undertaken by the Federal Land Development Authority has already resulted in serious setbacks.<sup>47</sup> In 1965 the Government was considering whether to authorise, in view of the relative price trends in palm oil and rubber, uprooting the recently planted rubber trees in the Land Development Schemes and replacing them with oil palm. This drastic measure had been undertaken by several of the larger foreign - owned rubber estates as a safeguard against future rubber price declines. Under the First Malaysia Plan, 1966-70, the Federal Land Development Authority has already shifted the emphasis from rubber to oil palm.

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47 First Malaysia Plan, 1966-70, Kuala Lumpur, 1965, p. 112.

Thus out of a total of 141,000 acres of land development projected for the period, 103,000 acres or about 73 per cent of the total acreage will be planted to oil palm rather than rubber.<sup>48</sup> It is, therefore, irrational on the part of the Government to continue the rubber replanting subsidy programme until 1970, especially at the much higher rate of \$ 750 - 800 per acre for the smallholder.

By way of justification for this excessively unbalanced concentration of public investment expenditure in a single perennial crop (which is associated with a high degree of resource immobility in agriculture) it is stated,

"The Government is confident that the Malaysian natural rubber industry can continue to remain viable and productive in the foreseeable future despite the competitive challenges it faces. This belief is held despite the realisation that the technology of synthetic rubber production will continue to improve and the world output of synthetic and natural rubber combined will probably increase at a more rapid rate than world demand, driving prices downwards.

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<sup>48</sup> Ibid., p. 117.

Progress in rubber replanting and continuation of aggressive research into high - yielding hybrids, production techniques and uses of natural rubber will permit costs to be lowered so that Malaysian natural rubber can continue to be sold profitably at lower prices. As a result of these efforts, Malaysian natural rubber will continue to earn a net return for producers for many years to come.<sup>49</sup> There seem to be no grounds for such an optimistic view, and in any circumstance, the relevant question to ask is whether the net returns to producers of rubber would be commensurate to their costs, including debt service and loan repayment.

#### Planning in the Industrial Sector.

While the Government has pursued an active, sometimes even aggressive, policy of development and direction of resources in the agricultural sector, it has largely been passive in the industrial field. The lack of a policy regarding industrialization may partly be traced to the Development Plan of 1950-55 and the absence of any Government Department that had studied this aspect of the problem of economic development.

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<sup>49</sup> Ibid., p. 112.



Indeed the First Five Year Plan of Independent Malaya was drafted in the same manner as the earlier plan, that is, by aggregating individual Departmental plans and consequently a policy towards industrialization had failed to materialise. However, the World Bank Report had inclined towards the view that Government policy regarding industrialization should be chiefly limited to passive measures such as site development, provision of modern infrastructure, and generally in providing a favourable climate for private investment. The Bank had come out strongly against import restrictions of any kind on the grounds that such a measure would lead to a deterioration of the standards of living of the majority of the population.<sup>50</sup> It also discouraged the use of tax concessions or tax holidays as policy measures to attract investment capital on the grounds that this would create a differential tax system in favour of new firms that might discourage re-investment by the old firms in agriculture and in the industries processing agricultural commodities.

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50 International Bank for Reconstruction and Development, Report on the Economic Development of Malaya, Kuala Lumpur, 1955, p. 72.

The First Five Year Plan of 1956-60, drawn up under the influence of both the above mentioned factors, devoted \$ 12.1 million to public development expenditure in Industry, almost the whole of it being devoted to site development, that is, the clearing of land suitable for factory development, and the provision of access roads, water supply and electricity and other facilities. A comparison of the level and composition of public investment in Industry during the three five year plan periods, as shown in Table IX.8, will reveal changes in Government's policy towards industrialization, if there were any. In a survey of the pattern of government participation in industry in Asian countries Dan Usher found that Malaya, Singapore and Hong Kong were the only territories which completely refrained from participation in industrial undertakings in any form.<sup>51</sup>

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51. Dan Usher, "Government Ownership of Industry in Asia," *Malayan Economic Review*, Vol. VI, No. 2, Oct., 1961.

Table IX.8

Public Investment Expenditure in Industry, 1956-70

	First Five Year Plan	Second Five Year Plan	First Malaysia Plan
Item	1956-60	1961-65	1966-70
		\$ million	
Site Development	11.1	24.5	14.0
Rural Industries	-	10.0	70.0
Other (Finance, Research)	1.0	24.6	26.3
Total	12.1	59.1	110.3
Investment in Industry as Per- centage of Total Public Invest- ment Expenditure	1.3%	2.5%	3.5%

Source: Interim Review of Second Plan and First  
Malaysia Plan.

As for Singapore and Hong Kong which are in fact city  
states where wholesale and retail trade bulk large in  
the national product, government participation cannot  
be of any significance.

On the other hand Malaya is essentially an agricultural country with about 60% of the working population employed in Agriculture which alone accounted for about 40 per cent of the national income. The manufacturing sector's share of the National income and of total employment remained stagnant at between 5 and 6 per cent throughout the period 1955-61. Although such a relatively small manufacturing sector compares unfavourably with other Southeast Asian countries (Thailand, 10 per cent of national income and the Philippines 14 per cent of national income),<sup>52</sup> it was thoroughly compatible with the Malayan economic situation where export sector production had advantages which outweighed production for the local market. But such stagnant conditions in the manufacturing sector could have changed if the Government had coordinated and established sectoral linkages between agriculture and manufacturing in the course of implementing its development plans. A more rapid rate of expansion in the manufacturing sector could have been realised if more attention had been given to domestic mobilization of resources.

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52 International Bank for Reconstruction and Development Report on the Economic Aspects of Malaysia,

A greater Government initiative in starting industrial enterprises, preferably of the 'mixed' type wherein local capital, both public and private, and foreign management could have participated, would have been more effective.<sup>53</sup> However, Government industrialization policy did not proceed in this direction.

In the current Plan, 1966-70, the Government appears to have relaxed its' rigid adherence to a policy of non-participation in industrial activity. A good proportion of the S 70 million allocated to rural industries will be used for the "establishment of new industrial enterprises and management of these enterprises in the initial stages with a view to the ultimate transfer of their ownership."<sup>54</sup>

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contd. Kuala Lumpur, 1963, pp. 25-26.

53 See, for example, A.H. Hanson, *Public Enterprise and Economic Development*, London, 1959; especially chap. IV for a survey of the important role that Government participation in industry plays in Economic development

54 First Malaysia Plan, op. cit., p. 137.

However, by confining such enterprises to 'rural industries' (meaning industries located in rural regions rather than the more limited 'cottage' industries) and by reserving such participation, along exclusively ethnic lines, to Malays, the Government appears to have imposed severe limitations upon its' success. It is unlikely that these 'rural industries' will be able to exploit new discoveries, technology or even a different set of natural resources. On the contrary their competitive position vis-a-vis the urban manufacturing complex would be weaker and their products would be able to compete in the domestic market only at subsidised prices. It would be a more realistic policy of the Government to attempt to try to expand and modernise existing small firms by the injection of more capital, with the stipulation that a certain quota of the employees should be drawn from a specified ethnic group or from the rural areas.

Among the 'passive' measures adopted by the Government in order to boost the expansion of the industrial sector, tax concessions or holidays have been regarded as most effective.<sup>55</sup>

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<sup>55</sup> These views are most forthrightly put out in the

But, paradoxically, foreign capital and technology which was the rationale for the introduction of tax holidays for Pioneer industries were less likely to profit from such arrangements than local capital.

The 'international company' will derive little benefit from such concessions for its distributed profits.

Thus even in those cases where double taxation agreements are in force, any distributed profits transferred abroad will be taxed in the home country to the extent they have been exempted from taxation in Malaya.<sup>56</sup>

Thus the Government's claim that the tax exemption legislation was principally responsible for the large number of foreign firms which have established branch plants in Malaya cannot be accepted without qualification.

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contd. undated publicity brochure, Manufacturing in Malaya, issued by the Malayan Industrial Development Finance Ltd.

<sup>56</sup> E.L. Wheelwright, *Industrialization in Malaya*, Melbourne, 1965, pp. 101-102.

It is more likely, however, that this influx of manufacturers of light consumption goods was due to the realisation that a branch plant in the territory (keeping constantly in touch with day to day developments) would be better able to protect the local market against competitors. The modern tendency for the consumer goods manufacturers to keep in closer touch with their market may be attributed to rapid developments in mass communication and market research techniques. Thus, irrespective of tax holidays, foreign manufacturers would have been under considerable pressure to establish local branch plants in Malaya. Another factor that could have speeded up this process is the fear that import restrictions or tariffs would inevitably come to be applied by an under-developed country in the course of implementing its plans.

The logical step would have been for the Government to have begun first, by formulating an acceptable tariff policy to encourage domestic manufacturing and secondly to have tried to help industries in special difficulty through a flexible tax policy. The technique of tax exemption that the Government introduced was of a crude and simple form.



Any company wishing to produce a new manufactured product, or a product which will be manufactured on a different scale was entitled to apply for tax concessions. A tax holiday of 2 years is normally given to companies with a minimum paid up capital of \$100,000 (£11,666 sterling); but if the amount of paid up capital was \$250,000 (£29,167) or above the company qualified for relief for 5 years.<sup>57</sup> As the sum of £29,167 is hardly excessive for modern manufacturing plants and factory premises these days, almost all foreign companies were successful in qualifying for the maximum 5-year tax relief, a considerable loss to Government revenue as company tax in Malaya is a flat 40 per cent of net profits.

The lack of a clear and definite policy towards industrialisation is evident in the application of the tax concession policy to new companies, based solely on the size of the paid up capital. Between 1958, when Pioneer certificates granting tax exemption from 2 - 5 years were first issued and the end of 1962, 88 companies had won tax holidays.

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57 See M.I.D.F.I., *Manufacturing in Malaya*, op. cit.

Table IX.9 gives a list of 44 companies, or one-half of the total involved, which will be competing with at least one other company for the small local markets for its' product.

Table IX.9

A Selected List of 44 Pioneer Companies  
by Product, 1958-62

Product	No. of Companies
Matches	3
Soaps, detergents	3
Toothpaste	3
Cosmetics	2
Pharmaceuticals	4
Condensed Milk	2
Sugar Refining	2
Food additives, spices	3
Canned or Frozen Food	3
Building, metal frames, fittings, etc.	8
Paints, enamels, varnishes	5
Cement-based paints	2
Plastics	4
Total	44

Source: Malaysia Official Year Book for 1963.

It is clear that many of these new companies had already established sizable markets for their products in Malaya and could have been induced to establish branch plants in Malaya by a well conceived tariff policy. Thus tax concessions under the Pioneer status could have been more stringently applied to benefit only those firms introducing new products or products for which the Malayan market offers potentialities of growth. As these tax concessions were based solely on the size of the called-up capital other important goals of industrialization were ignored. Thus the legislation failed to discriminate between firms on the criteria of the number of products to be produced, the relative import content to final value of output, the size of the labour force to be engaged and the skill mix of the labour input. The secondary effects of the growth of manufacturing firms on local industry could have been used as another criterion for awarding tax concessions.

Industries which were likely to have significant 'backward linkages,'<sup>58</sup> stimulating the production of raw materials and semi-manufactured goods as inputs, could have been favoured, as against other industries which were likely to depend to a large extent on imported materials. It is of course more difficult to determine the 'forward linkages' of these new firms but to some extent such developments could have been anticipated by the Malayan Industrial Development Finance corporation which not only provides finance but also undertakes production feasibility studies.

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- 58 A 'backward linkage effect' is the result of the fact that "every non-primary economic activity will induce attempts to supply through domestic production the inputs needed in that activity."
- A 'forward linkage effect', on the other hand, is confined to industries which produce 'intermediate' goods or goods not intended to cater exclusively to final consumer demand, as a result of its' inducing other industries to utilize its' products as inputs in some new line of production, or in the expansion of an existing one.

At present, however, there is little co-ordination between the Ministry of Commerce and Industry which is responsible for the award of pioneer status certificates and the Finance corporation which is responsible for the promotion of local industrial enterprises. In the long run, however, the strength of these 'forward linkage' effects in stimulating new industries and the expansion of existing ones will depend upon the extent to which the Government is able to persuade the new firms to pass on any advantages of production gained in the protected Malayan market in the form of lower prices.

#### Government's Development Policy and Employment

The lack of a clear formulation of employment goals directly linked to the development plans in Malaya can be traced back to the 'departmental' approach to planning that evolved under the Colonial Development and Welfare programmes initiated by the Colonial Office.

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contd. See Albert O. Hirschman, *The Strategy of Economic Development*, New Haven, 1958, pp. 98-100.

Thus the First Five-Year Plan introduced in Malaya after independence (for the period 1956-60) was, in conception and method of implementation, only an extension of the earlier programme undertaken in the colonial period. The outstanding feature of these earlier approaches to development was the concentration of effort along traditional lines in mining and in plantation agriculture as well as in the provision of more land for subsistence agriculture. Official policy tended towards the view that Malaya would continue to hold her economic advantage as a specialised producer of primary commodities such as rubber and tin and that further diversification of her economy had best be left to private enterprise and its' rationalization of the unhindered market mechanism. Such a developmental approach had clear historical precedents in Malaya and had proved successful in the past chiefly because of the migrant nature of the labour force. The implications of a major change in the pattern and rate of growth of the population as a result of the fact that the labour force had long since ceased to be migratory had been largely ignored in the formulation of Government economic policy.

As may be expected, in terms of employment growth, the effects of such development policies, wherein the role of Government is kept to the traditional minimal functions, have proved far from adequate. We have presented in Table IX.10 a comparison of the industrial distribution of the labour force as it was in 1957 and in 1965 and as it is expected to be in 1970 (on the basis of projections that were used in the latest Plan).<sup>59</sup> It must, however, be emphasised that the 1957 figures (based on the Census) are the only ones which are the result of a comprehensive enumeration, and that the 1965 estimates are based neither on complete enumeration in any industry nor on accepted sampling techniques. We have however used them, as well as the projections to 1970, because Government planning strategy is closely tied to them. Until the results of the 1967 census become available it will not be possible to show the extent to which the 1965 estimates deviated from the actual distribution of the labour force.

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<sup>59</sup> First Malaysia Plan, 1966-70, Kuala Lumpur, 1965.

But even on the assumptions of employment growth by industry as used by the Government it is evident that no major structural changes in the pattern of employment were contemplated during the sixties. As the tabulation shows, even in the seventies agriculture will continue to be the largest single source of employment, both in large-scale plantations and in peasant production. The decline in the relative size of the agricultural sector as a source of employment from 59 per cent in 1957 to 54 per cent in 1970 will however only materialise if employment in other sectors expanded as projected in the current Plan. It is likely that the tertiary industries, especially Transport, Construction and Trade will experience significant growth mainly as a direct result of the implementation of the development programmes and the rapid modernisation of the infrastructure. But it is also arguable that a significant proportion of the growth of employment in the service sector would be due to the fact that the urban unemployed generally tend to 'create' such self-employed occupations as petty trading and hawking of goods as well as personal services (a characteristic feature of urban areas in under developed countries) for lack of alternative employment.



employment opportunities. Such a pattern of employment does in fact reflect the growing importance of urban under-employment although in statistical enumerations they generally have the effect of under-stating the size of the unemployment problem. It is significant that the highest annual percentage growth rate of employment is expected to be in Government and other related fields in the period 1965-70. Such employment will however be mainly due to the expansion of the administrative machinery of the Government and to the increasing size of its' tasks in the field of internal security, external defence and the provision of more and better social services. It is therefore not surprising to find that the employment growth projected in the Government sector for the period 1965-70 allows for the highest growth rate in the whole economy, that is, 4 per cent per annum.

It is, however, to the Manufacturing sector that we must turn our attention in order to appraise the relevance of Government planning policy to rapid industrialization and economic development.

Table IX.10

The Industrial Structure of the Labour Force  
and Employment Growth

Industry	1957 (census) ( '000)	1965 (estimate) ( '000)	1970 (projected) ( '000)	1965-70 Annual percentage increase
Agriculture	1,245 (59%)	1,388	1,553 (54%)	2.3
Mining	58 ( 3%)	61	61 (2%)	nil
Manufacturing	136 ( 6%)	173	209 (7%)	3.8
Constrn., Trans- port, Communicat- ions, etc.	154 ( 7%)	210	252 (9%)	3.7
Wholesale & Retail Trade, Recreat'l & Personal Services	300 (13%)	429	508 (17%)	3.4
Government and Other	233 (12%)	257	312 (11%)	4.0
<b>Total Employed</b>	<b>2,126</b>	<b>2,518</b>	<b>2,895</b>	<b>2.8</b>

Source: Malayan Census 1957 and First Malaysia Plan

As Table IX.10 shows, employment in Manufacturing is expected to grow during the period 1965-70 at the rate of 3.8 per cent per annum or slightly less rapidly than in the Government sector. But this relatively high growth rate has to be examined in the context of the small absolute size of the labour force in this sector. In other words, it is important to stress the fact that during 1965-70 employment in Manufacturing will grow at the rate of 7,000 new workers per annum whereas the economy as a whole would absorb 75,000 workers per annum. Furthermore, this growth in the industrial labour force will be made up almost entirely of the under-employed urban labour reserves and would scarcely affect the rural Malay population. Thus a marginal change in the pattern of employment would continue to aggravate the ethnic composition of the labour force by industry. It is only through greater Government participation in industrial growth that the rural Malay population could be absorbed in larger numbers in the new industries and the traditional division of the labour market along purely ethnic lines broken down.<sup>60</sup>

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<sup>60</sup> Wheelwright, op. cit., p. 110.

Thus although the growth rate of 3.8 per cent per annum in Manufacturing employment may appear adequate in the context of overall growth of employment (2.8 per cent per annum), it would be insufficient to effect any major changes in the industrial structure of the labour force nor in its ethnic composition. The tabulation shows that according to the 1957 census only 6 per cent of the whole labour force was deployed in Manufacturing whereas the current Plan envisages that by 1970 this proportion would have increased to 7 per cent. But it is in fact more likely that the proportion of the labour force in Manufacturing would remain stagnant. This would be so because the estimates of employment in Manufacturing made by the Department of Statistics have been based on their annual Census of Manufacturing Industries since 1960. As these censuses were not intended to cover employment in manufacturing alone but all establishments involved in production, processing and repairing of goods, the employment figures derived from them cannot be used without qualification.

Thus the estimates of Manufacturing employment for 1965 and 1970, as used by the Government planners, include workers in establishments involved in processing primary products, in cases where they were located in urban areas. On the other hand the 1957 enumeration of Manufacturing employment excluded all workers engaged in processing primary products, irrespective of their location in urban or rural areas. The 1965 Census of Manufacturing Industries showed that 23 per cent of all workers enumerated were engaged in processing primary products outside rural areas, and therefore a realistic comparison of the 1965 and 1970 figures with that of the 1957 census enumeration would require that the former be deflated by this percentage. This would indicate that in 1970 the share of Manufacturing employment in the total labour force would have increased by less than 1 per cent since 1957.

The Economic Planning Unit has however based its estimates of growth in Manufacturing employment on the Censuses of Manufacturing that have been carried out since 1960.

On their calculations, manufacturing employment was estimated to have grown at the rate of 7,000 workers per annum during 1960-65 and this rate was expected to have increased to 7,200 workers per annum during the current plan period. It would be of considerable interest to see what proportion of this increase could be attributed to the Pioneer Industries tax exemption policy on which the Government appears to have concentrated all its efforts towards industrialization. Table IX.11 shows the number of new firms which have been established in the country with Pioneer Company status (which exempts them from company tax for period up to a maximum of five years) and their impact on employment creation.

Table IX.11

Annual Increases in the Number of Pioneer Companies and in Employment Provided.

Year	1961	1962	1963	1964	1965
No. of Companies	17	16	13	7	6
New Employment	2,136	1,781	1,296	582	834
Av.No. of Workers per Company	125	111	99	83	139

Source: Dept of Statistics, Annual Statistics, 1965.

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The data presented in the table cover the period of the Second Five-Year Plan which placed special emphasis on financial inducements as the primary factor in encouraging industrial development in the country.<sup>61</sup>

It will be seen that, annually, the number of new companies that took advantage of the tax exemption legislation and established manufacturing plants in Malaya declined steadily throughout the period. As noted earlier in this chapter, it was to be expected that manufacturers with established markets in Malaya would have been the first to take advantage of the new legislation and consolidate their marketing position.

Thus it would have been unrealistic for the Government to plan on the basis that the first on-rush of applicants for Pioneer status would be maintained in the long-run, especially as the larger manufacturers might expect a greater share of local capital investment or of Government participation in new industrial ventures as some form insurance against risks.

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61. See Interim Review of the Second Five-Year Plan, op. cit., pp. 45-50.

The declining trend in the number of pioneer companies is clearly reflected in the trend in employment created in this sector, which provides a striking contrast to the optimistic estimates used by the Government planners. Thus although new employment in pioneer companies during the Second Five-Year Plan accounted for less than one-fifth of the total estimated growth in Manufacturing employment, in view of its special position in the group of industries with most Government inducements, it is likely that its pattern of growth would have had important repercussions in the manufacturing sector generally. It is also worth noting that the average size of the labour force engaged in each of these pioneer establishments has throughout the period been well below 150 workers and had dropped even below 100 workers in 1963 and 1964. The lack of a definite employment - directed goal in the pioneer industries legislation is chiefly responsible for this uncertain trend in the average size of the labour force in establishments.



Table IX.12

**Unemployment and Growth of the Population  
of Working Age**

Particulars of the Labour Force.	1957 (census) ( '000)	1965 (est.) ( '000)	1970 (projtd.) ( '000)	1965-70 Annual Percent- age Inc.
Total Labour Force	2,204	2,678	3,055	2.7
Employed Workers	2,126	2,518	2,895	2.8
Unemployed Workers	78	160	160	-
Unemployed as Percent- age of the Labour Force	3.6	6.0	5.2	-
Population of Working Age (15-64 yrs.)	3,305	4,168	4,964	3.8
Labour Force as Per- centage of Working Age Population	66	64	61	-

Source: Malayan Census, 1957 and First Malaysia  
Plan.

An examination of the overall projections of employment, unemployment, and of the size of the labour force, as shown in Table IX.12, reveal a number of shortcomings in Government planning especially in regard to the problem of creating an adequate number of employment opportunities to meet the needs of a growing population. The 1957 census revealed that 3.6 per cent of the total labour force of 2,204,000 were unemployed, although they were of working age (that is, between 15-64 years) and were willing and ready to work. As Table IX.12 shows, the 6 per cent unemployment rate that Government planners have allowed for in 1965, is based on their estimates of the level of employment as well as of the total labour force. The percentage measure of the level of unemployment in the economy will of course vary according to differences in the estimation of the level of employment as well as to different computations of the size of the effective labour force. Even if we were to accept the Economic Planning Unit's estimate of total employment for the year 1965 as a fair approximation, the percentage of unemployment would be larger if it can be shown that the size of the effective labour force/

force had been considerably under-estimated. The 1957 census Report showed that the total working age population, or the potential labour force, was 3.3 million and that the effective labour force (of 2.2 million) constituted 66 per cent of the potential labour force. We have derived the 1965 and 1970 figures of the total working age population from the census projections of the whole population, by age group, for these years and which was conservatively based on the medium fertility rate prevailing over this period.<sup>62</sup> The estimates of the effective labour force for 1965 and 1970 used by the Government planners when expressed as ratios of the projected working age population show a declining trend from 66 per cent in 1957 to 64 per cent in 1965 and 61 per cent in 1970. This is in contradiction to normal trends in the employment participation rates of the population of working age, especially during a period of social change and modernisation.

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62 Three different sets of fertility rates were used in the calculations of the future growth of the Malayan population; but the 'medium' fertility rate was found to be the most likely. See Federation of Malaya, Population Census of 1957,

There are two major influences upon the labour market which would tend to raise the employment participation rates of the population of working age. The forces of economic change would have set in motion expectations of higher standards of living among families that could have resulted in more females becoming available for work. Secondly, due to the general improvement in standards of public health and in medical treatment more older workers would tend to avoid early retirement and remain in the labour market. Government planners have offered no explanation for such a perverse trend in employment participation rates because they have not subjected their estimates to careful analysis, especially in regard to consistency with the overall growth rate of the population. Thus it is inconsistent that whereas the rate of growth of the working age population during 1965-70 is expected, by census projections, to be 3.8 per cent per annum, the planners have worked on the assumption that the effective labour force itself would grow only at the lower rate of 2.7 per cent per annum.

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contd. Report No. 14, Kuala Lumpur, p. 44.

This differential growth rate of the labour force can only be explained by the assumption that employment participation rates among the population of working age would decline as shown in Table IX.12. This, however, has not been explicitly stated in any of the Plans or in other official documents.

One plausible explanation for these inconsistencies is that Government planners must have taken the 6 per cent level of unemployment, reported among urban areas,<sup>63</sup> as applicable to the whole country. Thus given the planners' estimates of employment growth by sectors, the estimate of the aggregate level of employment in the country for 1965 plus the 6 per cent unemployment ratio would have readily produced their estimate of the size of the labour force. It would have been more realistic to have attempted an estimation of the size of the labour force (on explicitly stated assumptions regarding employment participation rates) from projections of the whole population, by age group, as provided in the 1957 census Report.<sup>64</sup>

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63 Report on Employment and Unemployment in Metropolitan Towns of Malaya, States of Malaya, Kuala Lumpur, Dec. 1965.

64 See "Evaluation of the Population Census Data of

Another source of suspicion that the figures used by the planners may not be derived from reliable statistical data is the inexplicable constancy of the figure of unemployment (at 160,000) between 1965 and 1970. This may only be explained, in the most charitable terms, as a product of wishful thinking, namely, the publicly pledged desire to keep unemployment in check.

On a more realistic plane, even if we took the planners' estimates of employment for 1965 and 1970 as fair approximations, and assuming that employment participation rates would, conservatively, remain at their 1957 rate of 66 per cent, the level of unemployment in 1965 and 1970 would be 9 per cent and 12 per cent respectively, or significantly higher than the levels planned for. Such an analysis shows that, contrary to the optimistic expectations of the planners, unemployment in Malaya would grow in size and significance and present a major obstacle to further economic development.

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contd. Malaya," United Nations Economic Bulletin for  
Asia and the Far East, Vol. XIII, No.2, Sept.,  
1962.

The future relevance of development planning in Malaya will depend on the extent to which clear employment objectives (based on reliable statistical data) are successfully integrated into the planned structure of development expenditure both in the public and private sectors of the economy.

### Conclusion.

The present study has attempted to show how and due to what social and economic reasons the economy of Malaya had, within the short span of about half a century, been transformed from one characterised by an acute labour shortage to a labour-surplus economy. As we have noted earlier, the social and political conditions which obtained in the Malay States before the advent of British rule was not conducive to sustained industrial activity which would have required even a modest amount of capital investment. This was the experience of the early Chinese tin miners who had pioneered in export production even before Western economic and political influence had penetrated these States. Chinese mining operations were literally performed by manual labour not only because of technological backwardness but also because the indentured labour system gave the employers greater flexibility and mobility and also afforded them security in their operations, as the workers were often required to fight off illegal intruders.



The extension of law and order in these states under British rule not only obviated the need for mining employers to maintain large reserves of labour to meet all contingencies but also encouraged greater European (especially British) participation in mining and plantation agriculture and hence the diffusion of labour-saving technology especially in tin mining. But while mechanical power rapidly replaced man power in mining, the extension of rubber cultivation brought about a greater demand for immigrant labour. So that even 25 years after British rule had been introduced in the Federated States of Malaya a Government official could state that "the first essential in these States is Population, the second Population and the third Population."<sup>1</sup>

The rapidity with which the new enterprises specialising in primary production for export came to be established in Malaya gave no scope for the indigenous economy with its' small self-employed farming population to adapt itself to the growth sectors.

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1 Annual Report of the British Resident, Negri Sembilan, 1899.

In addition the political doctrine of indirect rule on which British administration of these states was based provided considerable autonomy to the local Malay rulers in social and political affairs affecting the indigenous Malay population. Thus while the immigrant labour force, who were urbanised to a greater extent, felt the impact of modern production and the stimulus of the market mechanism and received the direct benefits of new social legislation, the indigenous Malay labour force remained largely isolated from the process of modernisation that rapid economic change entails. Thus the overall dualistic pattern of economic growth in the country came to be superimposed upon the major ethnic division of the labour force into immigrant Asian and indigenous Malay groups.<sup>2</sup> However, as long as the immigrant Asian component of the labour force remained migratory and the emergence of a Malayan labour market as yet unrealised, the problems of rationalising the use of available labour resources in the country did not appear urgent.

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2 See Vera C. Lutz, "The Growth Process in a 'Dual' Economic System," Banca Nazionale Quarterly Review (Rome), No. 46, Sept., 1958.

But since the Great Depression of the thirties immigration as a source of labour supply has declined in importance due to external as well as Malayan controls being imposed. By the late thirties employers and the Government had become aware of the need to evolve an appropriate system of industrial relations to meet the conditions of the local labour market and in order to check the widespread industrial unrest produced by the rapid increase in the number of workers' organizations.

The intensity as well as the extent of industrial unrest experienced in Malaya in the years immediately following the end of the Pacific War in 1945 is chiefly attributable to the fact that decisive action was simultaneously called for in the industrial relations field and in economic development. It is a debatable question whether more or less Government participation in both these fields would have occurred if the Communist armed insurrection of 1948 had not taken place. On balance, however, it would seem that the Government became more readily persuaded of the need to introduce modern labour legislation and to draft long-term social and economic development plans in order to counter/

counter communist propaganda. The inter - censal period 1947-57 registered a rate of population growth of 2.8 per cent per annum which, if not unusual for an under developed country today, was exceptional for Malaya, a considerable proportion of whose population had until recently been migratory.

Since 1957 the independent state of Malaya has had to grapple with the problem of a labour force that has been growing at the rate of about 3.8 per cent per annum, or at a rate higher than the growth rate of the whole population because of the age structure of the population. The Government is aware of the problems posed by such rapid growth.

"The rapidly rising population is also reflected in a high rate of increase of the number of people seeking employment. If economic growth is not rapid enough to provide jobs for these new job seekers, frustration and discontent will be the result. The success of the government's new programme of family planning, aided by changes in attitudes toward family size which are likely to accompany economic development, will in time reduce the birth rate and hence the rate of population growth.

But such a process takes time and until the birth rate is brought down the economy must grow rapidly just to keep average income levels from stagnating or even declining."<sup>3</sup> But despite this awareness of the problem, the Government has revealed through its' slavish adherence to the traditional pattern of distribution of its' development expenditure in successive five-year plans that it has no strategy to meet the growth of unemployment. Over-dependence on traditional exports and 'diversification' along similar lines of production (such as from rubber to oil palm cultivation) have not been adequately justified especially in the context of stagnant world demand or the more serious threat of competition from synthetic substitutes.<sup>4</sup>

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3 The First Malaysia Plan, 1966-70, Kuala Lumpur, 1965, p. 5.

4 '\$ 500 m drop in rubber exports in 6 years - the export value of rubber dropped from \$ 2,001 m in 1960 to \$ 1,462 m in 1965 despite an increase in production from 780,068 tons to 924,367 tons in the same period, the Senate was told today,' Straits Times (Newspaper), Mar. 6, 1967.

Secondly, it is increasingly becoming evident especially in the larger and better - organised plantations, whether of rubber or oil palm, that an increased output can be maintained without a corresponding increase in the size of the labour force. The use of scientific and better co-ordinated production methods as well as the introduction of more incentive - based systems of remuneration have obviated the need to hoard large reserves of cheap labour as in the past. It is likely that the Government's concern to ensure the expansion of the plantation sector is due more to its' significance as a source of revenue (through export taxes) than to its' significance as a potential source of employment growth.

A mere expansion of economic activity will not ensure economic development. It is evident that future economic growth in Malaya will not be sustained unless the structure of development expenditure is so co-ordinated that there is a continual shift of the labour force from traditional agriculture and other low - productivity occupations to secondary and tertiary industries.<sup>5</sup>

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5 See "Development Planning in E.C.A.F.E. countries

This will ensure not only better farming methods and therefore higher productivity in agriculture but also a more rational distribution of the labour force in a diversified industrial economy.<sup>6</sup> It may be objected that such a full-scale attempt at changing the economic structure of the country would be unrealistic especially in view of the shortage of capital in an under developed country like Malaya. But shortage is a relative term and is dependent for its measurement upon the social ethical and technical standards obtaining in a particular community.

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contd. in the recent past - Achievements, Problems and Policy Issues," U.N. Economic Bulletin for Asia and the Far East, Vol. XV, No.3, Dec., 1964.

- 6 J.C.H. Fei and G. Ranis, Economic Development of the Labor Surplus Economy, Homewood, 1965. See also an article by the same authors entitled, "Innovation, Capital Accumulation and Economic Development," American Economic Review, Vol. LIII, No.3, June, 1963.

The most generous grants of aid and technical assistance, as has frequently happened, would have been wasted in an under developed country if the Government has failed, through misgovernment or through misuse of its' ordinary revenue, to arouse the enthusiasm of its' people for a programme of gradual but steady economic development.<sup>7</sup> Inexperienced governments of the emergent nations, faced with political and economic problems, of which they had no serious conception before, have found it easier to try to win over the masses through spectacular but irrelevant or uneconomic projects rather than through the hard way of education. It has now become fashionable to treat education (meaning formal education, of course) as the residual factor and to accord it a place of importance second only to physical capital investment.<sup>8</sup>

7 See Barbara Ward and P.T. Bauer, *Two Views on Aid to the Developing Countries*, Institute of Economic Affairs, Occasional Paper 9, 1966.

8 See C.A. Anderson and Mary Jean Bowman, *Education and Economic Development*, Chicago, 1965, and also P. Harbison and C.A. Myers, *Education, Manpower*



But education, far more than physical capital, will not readily allow itself to be turned into a statistical abstraction. All these attempts to try to isolate 'the factor' of economic development may ultimately be traced to the desire on the part of Governments to find quick, fool-proof answers to what is basically a human problem. Capital investment, both physical and 'human,' by itself would fail to ensure economic development unless the mass of the people and especially the labour force who would be the most directly involved agents of economic change, had been given a sense of participation and direction. As Colin Clark has remarked,

"The only justification for some pre-occupation with capital is that investment can more readily be subjected to some measures of control, or of encouragement, than can labour, if we rank the freedom and the dignity of the individual as something most important among our political objectives."

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contd. and Economic Growth, New York, 1963.

But in the end success will be achieved only if politicians, economists and others realize that economic development is a difficult task."<sup>9</sup>

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- 9 Colin Clark, "Growthmanship," in Ancient or Modern (Ralph Harris, ed.), Hobart Papers, Vol. 2, London, 1961, p. 131.

## Appendix

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